



U.S. General Services Administration

2010

AGENCY FINANCIAL REPORT
A LEGACY OF SERVICE, A PURSUIT OF EXCELLENCE



GENERAL SERVICES ADMINISTRATION

MISSION STATEMENT AND STRATEGIC GOALS



MISSION STATEMENT

GSA's mission is to use expertise to provide innovative solutions for our customers in support of their missions and by so doing foster an effective, sustainable, and transparent government for the American people.

STRATEGIC GOALS

Innovation

GSA will be an innovation engine for the government. GSA will use its government-wide perspective and expertise, centralized procurement and property management role, and unique statutory authorities to take chances that others are not positioned to take. GSA will test innovative ideas within its own operations and offer those solutions to other agencies through its government-wide contracting and policy-making authorities.

Customer Intimacy

GSA will seek an intimate understanding of and resonance with its customers in order to serve with integrity, creativity, and responsibility. GSA will develop strategic partnerships with industry and with other federal agencies to develop new and innovative tools for a more effective government.

Operational Excellence

GSA strives for performance excellence, continuous improvement, and the elimination of waste in all of its operations.

GSA is committed to developing the acquisition workforce and deploying electronic tools to support the reform of federal contracting, and originating and fine-tuning the government-wide policies necessary for a truly modern federal government.

In previous years GSA produced a Performance and Accountability Report (PAR) which combined GSA's financial and performance results into a single document. This year, GSA has chosen to produce an Agency Financial Report (AFR) and Annual Performance Report (APR). For GSA's detailed performance information, see GSA's FY 2012 Congressional Budget Justification which will be published during February 2011, and available at GSA.gov/annualreport

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LETTER FROM THE ADMINISTRATOR

I am proud to present the FY 2010 Agency Financial Report (AFR) for the General Services Administration (GSA). The AFR presents key FY 2010 accomplishments in program and financial management.

In FY 2010, GSA received another unqualified “clean” audit opinion from our independent auditors. The audit opinion and financial results reported in the AFR verify that GSA financial operations comply with federal financial regulations, Department of the Treasury guidance, and generally accepted accounting principles (GAAP). GSA’s AFR provides taxpayers and our customers with confidence that we manage our operations with the same stewardship that they apply to managing their own funds.

The GSA mission is to use expertise to provide innovative solutions for our customers in support of their missions and by so doing foster an effective, sustainable, and transparent government for the American people. In FY 2010, GSA developed a Strategic Sustainability Performance Plan that will guide GSA’s sustainability efforts to achieve a zero environmental footprint. In accordance with this plan, GSA will take actions to directly reduce its consumption of resources, and will provide its federal agency customers with solutions that help them manage and reduce their consumption, as well.

The results reported in the AFR reflect GSA’s commitment to realizing our three strategic goals: Innovation, Customer Intimacy, and Operational Excellence.



INNOVATION

GSA strives to be an innovation engine for the government. GSA reaches across the government and uses our perspective and expertise, through our centralized procurement and property management role and unique authorities, to offer innovative and cost-effective solutions. GSA focuses on emerging ideas and technologies, tests innovative ideas in our operations, and assumes acceptable risk as part of

the process. GSA drives greater transparency in government by adopting agile technologies, processes, and expertise for citizen engagement and collaboration built around innovative solutions. These solutions include Challenge.gov, a platform that lets agencies launch and showcase innovation challenges, and Apps.gov NOW, which provides a variety of blog, wiki, forum and other engagement tools that are easy to use, fully secure and policy compliant. Additionally, GSA tries various green technologies. We are designing the plates in the road that the trucks bounce over at San Ysidro Land Port of Entry to see if they really do generate enough electricity to run border stations. We support the Denver Environmental Protection Agency (EPA) regional office in going for Leadership in Energy and Environmental Design (LEED) gold so that it can then spread that standard across all other EPA offices. In our unique role, GSA has the opportunity and responsibility to lead innovation and offer proven solutions to other agencies.

CUSTOMER INTIMACY

GSA seeks an intimate understanding of, and resonance with, its customers in order to serve them with integrity, creativity, and responsibility. GSA will develop strategic partnerships with industry and with other stakeholders to develop productive and innovative tools for more effective government. Customer intimacy requires a deep and strategic understanding of the business of our client agencies and an openness to ideas and solutions. Through the Open Government initiative, GSA promotes transparency, participation, collaboration, and innovation. The challenge for GSA is to maximize this new, “open” approach by analyzing the offered ideas in order to mine them for solutions that address customer needs.

OPERATIONAL EXCELLENCE

GSA strives for performance excellence, continuous improvement, and the elimination of waste in all of its operations. GSA is committed to developing the acquisition workforce, deploying electronic tools to support the reform of federal contracting, and originating and fine-tuning the government-wide policies necessary for a truly modern federal government. GSA is making mobile work a reality for our employees. Virtualization, miniaturization, enhanced security and network improvements are helping GSA employees to work at any location and any time. GSA's experiments in this direction will help lead the way for the entire federal work force. GSA cultivates an employee-friendly culture that rewards innovation, values customer service, and is committed to excellence.

GSA's broad reach includes government acquisitions and a significant portion of the buildings portfolio in which federal employees work. As a result, Operational Excellence also means that GSA can maximize efficiency and offer customers a combination of quality, price, and ease of purchase that no one can match. GSA will sustain Operational Excellence by achieving results, solving problems, and completing what we set out to do.

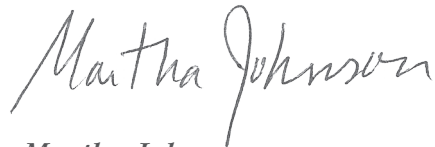
SUSTAINABILITY

Sustainability combines and gives life to each of GSA's strategic goals: innovating on opportunities for environmental stewardship, understanding and partnering with customers in achieving their sustainability goals, and operating so as to reduce consumption of resources and minimize waste. GSA aspires to eliminate its own impact on the natural environment and use its government-wide influence to reduce the environmental impact of the federal government. GSA's efforts to “green” the federal supply chain include obtaining greenhouse gas disclosures from suppliers and exploring ways to use those disclosures as evaluation factors in procurements. GSA established a zero environmental footprint goal to provide a single, unifying purpose to accelerate innovation in green technology, business practices, and collaboration. Part of working toward a zero environmental footprint includes an aggressive data center consolidation plan, the promotion of telework for employees, and significant cuts to business travel. Additionally GSA's efforts to spur identification and disposition of excess federal properties contribute to both cost savings and sustainability. I am pleased that GSA is a member, along with the Department of Energy and the Council on Environmental Quality, of an interagency team tasked with leading the federal government sustainability efforts. Our sustainability agenda will also require creative and progressive work with the private sector which will have accelerating environmental performance impact across the nation. GSA will eliminate waste and pollution, and align its activities to deliver a zero environmental footprint.

FINANCIAL, SYSTEMS AND PERFORMANCE DATA ASSURANCES

As outlined in the Management Assurances section of this report, GSA conducted its assessment of the effectiveness of internal control over operations, systems, and financial reporting. GSA can provide reasonable assurance that internal controls were operating effectively in each of these areas.

Throughout the year, our senior managers assess the efficiency and effectiveness of their organizations by analyzing financial and performance data. Management relies on this data to identify material inadequacies in financial and program performance areas and to identify corrective actions needed to resolve them. As required by the Reports Consolidation Act of 2000, I have assessed the financial and performance information used in this report and believe it to be complete and reliable.



Martha Johnson

Administrator

November 10, 2010

HOW GSA BENEFITS THE PUBLIC

In FY 2010, GSA continued to shape and facilitate ways for the government to conduct business and to interact with citizens and industry.

Most federal activity is conducted using technology, furniture, workspace, office equipment, and supplies procured through GSA. GSA provides direct public access to a wide range of government services by managing the official Web portals of the federal government, USA.gov and GobiernoUSA.gov, its Spanish-language counterpart, and providing goods, services, and workspace to federal agencies at best value.

GSA helps protect the nation by providing equipment and non-tactical vehicles to the U.S. military and by providing federal, state and local governments with law enforcement equipment, firefighting and rescue equipment, and disaster recovery products and services.

GSA AND THE AMERICAN RECOVERY AND REINVESTMENT ACT

In FY 2009, GSA received \$5.9 billion in American Recovery and Reinvestment Act (Recovery Act) funds. GSA is dedicating the Recovery Act funds to construction and renovation projects that are creating jobs and providing environmental benefits. The funds allowed GSA to begin projects to reduce water and energy consumption in over 240 federal buildings and to replace over 17,000 aging motor vehicles with fuel-efficient vehicles.

The Public Buildings Service (PBS) received \$5.6 billion of Recovery Act funds. Using these funds, PBS has put 545 companies to work building and renovating federal buildings, U.S. courthouses, and land ports of entry across the country. A few of the Recovery Act projects that PBS concentrated on in FY 2010 include:



Administrator Martha Johnson and U.S. Rep. Andre Carson pause for a photo with local contractors and construction workers at the Maj. Gen. Emmett J. Bean Federal Center in Indianapolis, IN undergoing a project funded by the Recovery Act.

- GSA launched a “Solar Summer” initiative to aggressively increase the number of solar installation projects nationwide. As of September 2010, 31 solar energy projects were started, to generate an estimated 12 megawatts of renewable solar power capacity – enough to power 1,600 homes, and equivalent to removing 2,500 cars from the road.



Administrator Martha Johnson at the Bean Federal Center in Indianapolis, IN where more than 6,000 solar panels will be installed.

- PBS converted a vacant ammunition factory into an office building for the Social Security Administration in St. Louis, MO. PBS invested \$16 million to incorporate innovative design, efficient HVAC and lighting systems, solar-heated water, and advanced utility-metering technology. The renovated building will reduce energy consumption and created jobs for design, engineering, and construction firms.
- A “cool” roof and solar electricity panel project was completed at the Robert J. Dole U.S. Courthouse in Kansas City, KS. The new roof features more than 200 solar panels that generate on-site renewable electricity as well as provide a surface that reflects sunlight helping keep the building cool. Approximately \$3.1 million of Recovery Act funds are being invested in the courthouse.

- Using Recovery Act funding, the Edith Green-Wendell Wyatt Federal Building in Portland, OR is undergoing extensive renovation. During the renovation, GSA will add “green” features including solar rooftop panels, smart lighting, energy efficient elevators, and the use of rainwater in lavatories. The renovations will cost an estimated \$139 million and will be completed in October 2013. The project will make Portland’s flagship federal building a Leadership in Energy and Environmental Design (LEED) Platinum certified green building and one of the most energy efficient buildings in the federal building portfolio. LEED certification provides third-party verification that a building was designed and built to standards that improve energy savings, reduce water consumption, improve indoor air quality, and use more sustainable resources, when compared to existing buildings.



Rendering of the Edith Green-Wendell Wyatt Federal Building in Portland, OR upon completion in 2013

The Federal Acquisition Service (FAS) obligated nearly \$300 million in Recovery Act funds and procured 17,246 new, more fuel efficient vehicles. By the end of FY 2010, all vehicles were delivered, and 17,205 older vehicles were sold, resulting in revenues of \$50.5 million. To further “green” the fleet, GSA used the proceeds from the sale to purchase an additional 1,590 hybrid, 200 low-speed electric, and 94 other vehicles. Most of these vehicles were delivered to customers in FY 2010.

More information about the use of the GSA Recovery Act funds is available at GSA.gov/recovery.

GSA MAKES SUSTAINABILITY A PRIORITY

GSA provides office space to over one million federal employees in over 9,600 owned or leased buildings and offers over 12 million products and services to other federal agencies. This presents a unique opportunity for GSA to lead the federal government in sustainable building design and operations and in providing its customers with innovative “green” products and services. GSA set a goal of reaching a zero environmental footprint for its operations. In FY 2010, GSA developed a FY 2010-2015 Strategic Sustainability Performance Plan that establishes a series of goals to reduce the environmental impact of the federal government. GSA sustainability efforts include:

- Since 2003, GSA has designed all of its new federal buildings to achieve LEED certification. As of September 30, 2010, GSA had 56 LEED certifications. Additional information about LEED certifications is available at USGBC.org.
- GSA promotes the acquisition of environmentally friendly products and services for federal agencies. The GSA Global Supply 2010 Environmental Products Brochure features more than 150 “green” items for civilian and military customers worldwide. From office products to cleaning supplies, these products help agencies foster an organizational culture that encourages sustainability. More information about GSA environmental products is available at GSA.gov/enviro.



- The Green Electronics Council’s Electronic Product Environmental Assessment Tool (EPEAT) is an international registry of environmentally preferable information technology products. Currently, 99 percent of GSA’s electronic assets are registered by the EPEAT and Energy Star qualified. The Energy Star program establishes minimum standards for energy efficient consumer products.
- GSA released a carbon footprint tool this year for federal agencies to use to complete their comprehensive greenhouse gas inventory. The tool follows a bottom-up approach to greenhouse gas inventory calculation and reporting, with roll-up to an aggregate enterprise or agency level. The tool is offered to all federal agencies free of charge. Currently, there are seven agencies who have officially registered to use the tool. GSA conducted “Welcome Aboard” meetings with these registered agencies to provide training, discuss account administration, provide support documentation, and assist them in developing a customized approach to implementing the tool.

More information on the GSA sustainability efforts is available at: GSA.gov/sustainability.

SMALL STEPS, BIG RESULTS

- The National Capital Region collected its spent coffee grounds and distributed them as fertilizer in surrounding landscapes. Coffee grounds are a rich source of nitrogen, serve as an excellent fertilizer and organic soil alternative, and reduce the cafeteria’s food waste. This “Grounds for Grounds” initiative will yield approximately 10,000 pounds of coffee grounds annually.
- The Pacific Rim Region used a herd of goats to rid themselves of extreme overgrowth and underbrush near one of its facilities to avoid summer fires. The goats reduced the cost of clearing the brush and were more environmentally friendly than using bulldozers, as done in the past.

- GSA held a food drive from June to September 2010 and donated a total of 7,356 pounds of food to local food banks. The large donation was a result of the hard work of employees throughout the GSA community who incorporated the food drive into picnics, fitness events and other group activities.

GSA ENCOURAGES CITIZEN ENGAGEMENT

In FY 2010, GSA played a vital role in implementing the principles of open government through government-wide policies and initiatives, services and information provided directly to the public, and by establishing collaborative platforms and tools across the government. GSA also worked directly with other federal agencies to make their data and websites available to the public, through portals like USA.gov. Other recent initiatives such as [USA Spending](http://USA_Spending), IT Dashboard, and Data.gov, are benefiting the public by providing simple, transparent access to government data. In FY 2010, GSA started or improved various open government initiatives:

- GSA used an online tool to conduct a dialogue with the public and employees while drafting its Open Government Plan. The online collaboration tool solicited ideas for creating a culture of openness at GSA and was designed to collect public input while providing transparency, collaboration, and innovation. Registered members were able to share ideas, comment on existing ideas, and vote on ideas. In less than six weeks, 256 registered users submitted 72 ideas, cast 446 votes, and wrote 132 comments. GSA used some of these ideas in its Open Government Plan which was submitted to the White House. Additional information on GSA's Open Government Plan is available at GSA.gov/open.
- On July 2, 2010, GSA launched a revamped USA.gov to improve access for the public to vital citizen services. The site provides increased usability, new mobile applications for on-the-go instant access. The new state-of-the-art search engine is nine times faster than the previous Web site and helps citizens navigate through government information. More information is available at USA.gov.
- GSA helped facilitate public engagement in the federal government by launching Challenge.gov. The online platform allows agencies to post problems or challenges and invites the public to suggest, discuss, and evaluate solutions. To encourage participation from the public, Challenge.gov allows agencies to reward those who participate in their respective challenges with monetary and non-monetary prizes. As for challenges that were specific to GSA, three were posted in September 2010 tied to a sum of \$15,000 in prizes for the public. GSA is also encouraging public dialogue through the Better Buy Project that solicits public input on ways to improve government acquisitions through a wiki and other social media. More information is available at Challenge.gov and BetterBuyProject.com.
- GSA encourages the use of social media technologies to enhance communication, collaboration, and information exchange in support of the GSA mission. By openly sharing knowledge, best practices, and lessons learned, GSA provides more effective solutions and efficiencies to enhance excellence in the business of government. GSA is using Facebook, Twitter, and other popular social websites to interact with the public. Connect with GSA at facebook.com/gsa, youtube.com/usgsa, and twitter.com/usgsa.

GSA SUPPORTS DISASTER RELIEF EFFORTS

GSA has the ability to provide contact support, supplies, office space, telephone service, furniture, and a host of other necessities when called upon in an emergency or disaster relief effort. In FY 2010, GSA supported approximately 25,000 emergency lodging requests totaling \$2 million, and 890 emergency transportation requests totaling \$17 million. GSA also procured \$11 million in emergency supplies and services, and \$34 million in wildfire suppression goods for our agency customers.

During the first two weeks after the Haiti earthquake in January 2010, GSA's national contact center responded to nearly 45,000 calls from individuals looking for information and to support the recovery efforts. At the same time, GSA's Supply Operations filled more than 240 requisitions totaling nearly \$1 million to federal agency customers. The Department of Defense placed most of the orders, ranging from toothpaste and water jugs to memorandum books and safety helmets. GSA also arranged shipping for supply and equipment that disaster relief personnel used, including generators, electronic equipment, tents, vehicles, cots, and blankets.



Sailors load pallets of humanitarian supplies aboard the USS Carter Hall for the relief operation following the earthquake in Haiti.

GSA SAVES MONEY FOR TAXPAYERS

GSA saved money for taxpayers in many ways in FY 2010, including:

- Through an online auction, GSA acquired electrical service contracts that will save the federal government an estimated \$3.4 million over the next two years. The solicitation for 275 million kilowatt hours requires that five percent of the electricity come from renewable energy. Other agencies joining the solicitation were the Department of Veterans Affairs, Bureau of Prisons and the Environmental Protection Agency. GSA's estimated share of the savings will be \$1.1 million.
- GSA negotiated a new wireless contract that will save the agency approximately \$900,000 a year. GSA made progress in reducing annual wireless spending, despite the user population increasing from 8,080 to more than 13,000 in four years. Also, by moving the agency into a pooled minute plan, overage charges have been reduced from more than \$180,000 per month to less than \$750 per month. The recently awarded contract was made through the GSA FAS schedules program.

MANAGEMENT'S DISCUSSION AND ANALYSIS



ORGANIZATION

GSA delivers services to its federal customers through 11 regional offices and the central office in Washington, D.C. GSA is composed of the Federal Acquisition Service (FAS), the Public Buildings Service (PBS), Office of Citizen Services and Innovative Technologies (OCSIT), the Office of Governmentwide Policy (OGP), 10 staff offices that support the agency, the Office of Inspector General (OIG) and the Civilian Board of Contract Appeals (CBCA).

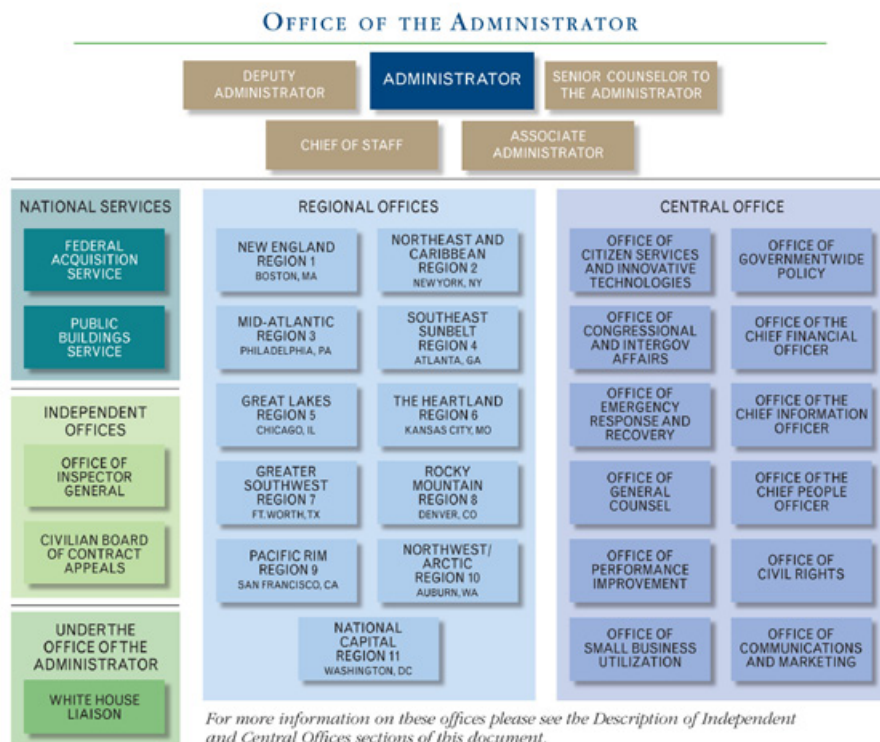
FEDERAL ACQUISITION SERVICE

FAS is the lead organization for procurement of products and services (other than real property), for the federal government. FAS leverages the buying power of the government by consolidating federal agency requirements for common goods and services. FAS provides a range of high-quality and flexible acquisition services that increase overall government effectiveness and efficiency. FAS business operations are organized into four business portfolios based on the product or service provided to customer agencies: Integrated Technology Services; Assisted Acquisition Services; General Supplies and Services; and Travel, Motor Vehicles, and Card Services.

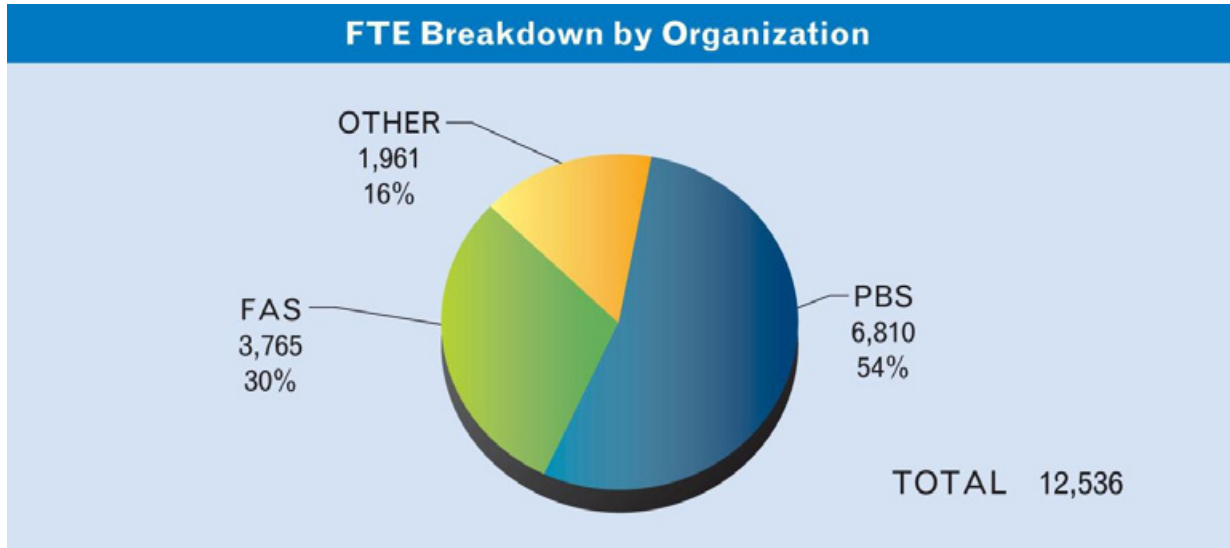
The FAS portfolio structure enables GSA and FAS to provide best-value services, products, and solutions to its customers by aligning resources around key functions.

PUBLIC BUILDINGS SERVICE

PBS is the largest public real estate organization in the United States, providing facilities and workspace solutions to more than 60 federal agencies. PBS aims to provide a superior workplace for the federal worker and superior value for the taxpayer. PBS's activities fall into two broad areas. The first is space acquisition through both leases and construction. PBS translates general needs into specific requirements, marshals the necessary resources, and delivers the space necessary to meet the respective missions of its federal clients. The second area is management of space. This involves making decisions on maintenance, servicing tenants and ultimately, deciding when and how to dispose of a property at the end of its useful life. In addition, PBS is working with customers to design the workplace of the 21st Century, thereby reducing overall space needs.



In FY 2010, GSA had 12,536 full-time equivalent (FTE). FTE are defined as the total number of hours worked, divided by the total hours in a work year. GSA has a continuing commitment to its federal customers and taxpayers to provide services in the most cost-effective manner possible. GSA delivers on this promise by steadily improving organizational performance.



PERFORMANCE SUMMARY AND HIGHLIGHTS

The GSA mission is to use expertise to provide innovative solutions for its customers in support of their missions and by so doing foster an effective, sustainable, and transparent government for the American people. GSA is committed to providing modern, efficient, and comprehensive solutions to the needs of all federal agencies.

GSA has three strategic goals: Innovation, Customer Intimacy, and Operational Excellence. GSA must take risks and be innovative, seek an intimate understanding of customer missions and goals, and seek continuous improvement in GSA business processes to influence customer behavior, green the federal supply chain, and drive the market for sustainable products and services.

In FY 2010, GSA established a set of high-priority performance goals. These high-priority performance goals identify near-term outcomes that are meaningful to the public and demonstrate progress towards achieving GSA's strategic goals. Each high-priority performance goal aligns with one of its strategic goals: Innovation is supported by the "Environmental Sustainability" high-priority performance goal, Customer Intimacy objectives are reported in the "Open Government and Transparency" high-priority performance goal, and success in Operational Excellence will be measured, in part, by performance against its high-priority performance goal of "Excellence in Solutions Delivery".

STRATEGIC GOAL: INNOVATION

High-Priority Performance Goal: Environmental Sustainability. GSA will take actions to directly reduce our consumption of resources and will provide our federal agency customers with solutions that help them manage and reduce their consumption.

GSA has identified three key areas where the agency can make the greatest impact in improving federal environmental performance in the next 18 to 24 months: government-wide policy, greenhouse gas (GHG) emissions from federal contractors, and recycling in federal buildings. GSA will demonstrate innovation by using existing

processes to deliver radically different outcomes for GSA, federal agencies, industry, and the public in the area of sustainability.

GSA is responsible for formulating and maintaining government-wide policies covering a variety of administrative activities, including: acquisition, management, and disposal of personal and real property; federal employee travel and transportation; federal information technology; and the use of regulatory information and federal advisory committees. GSA uses its policy responsibilities to ensure that all federal agencies have access to and use the most effective management practices for managing property, technology, and administrative services.

In FY 2010, GSA analyzed the Federal Acquisition Regulation (FAR) to identify and eliminate barriers to sustainable acquisition. The FAR is a 53-volume regulation governing how the federal government purchases goods and services. The FAR establishes processes and standards that must be followed both by federal employees making purchases and by contractors who are competing to supply goods and services. By eliminating barriers to sustainable acquisition, GSA could potentially direct billions of dollars of federal spending towards products and services that are more environmentally preferable than what would have been acquired otherwise.

In FY 2010, GSA initiated two separate regulatory actions to modify the FAR, to eliminate barriers to sustainable acquisition. In the first, GSA is addressing a gap in the regulation by proposing clear requirements for the procurement of bio-based products. A second, larger change would amend language throughout the FAR to reflect new government-wide standards that require all federal agencies to ensure that sustainable products and services make up 95 percent of their purchases. GSA will identify additional policy changes and collaborate with federal agency partners to update those policies by September 30, 2011.

GSA, on behalf of the government, will identify benefits and challenges for federal contractors choosing to complete a GHG emissions inventory using the services of a GHG emissions registry. A substantial proportion of the government's GHG emissions are created during the production and delivery of goods purchased by federal agencies. As the central purchasing agency for the federal government, GSA has a unique opportunity to develop incentives for federal contractors to voluntarily measure their own GHG emissions and identify opportunities to include contractor GHG emissions in federal procurement decisions.

In FY 2010, GSA began efforts to obtain contractor GHG emissions data by identifying federal contractors who are already measuring their emissions. GSA partnered with the Carbon Disclosure Project (CDP) to identify the top 200 federal contractors (based on federal spending) that participated in the CDP's 2010 survey. CDP is an independent, non-profit organization that collects GHG emissions data from 2,500 organizations around the world through voluntarily surveys. In FY 2011, GSA will engage those companies in focus groups and outreach activities to identify benefits and challenges of voluntary GHG emissions inventories. GSA will use this information to develop incentives for federal contractors to inventory and disclose their GHG emissions.

GSA recognizes that measuring and disclosing GHG emissions might pose a disproportionate burden on small businesses. GSA is soliciting 60 or more small businesses to voluntarily complete a GHG emissions inventory in the Environmental Protection Agency's (EPA) Climate Leaders Program. Climate Leaders is an EPA industry-government partnership that works with companies to develop corporate GHG emissions inventories, set GHG emissions reduction goals, and annually report GHG emissions to the EPA. GSA is working with the small business community to identify a minimum of 30 small businesses interested in completing a GHG emissions inventory. GSA will also work with other agencies – Department of Defense, Department of Interior, EPA, National Aeronautics and Space Administration, Department of Energy, and the National Institutes of Health – to collectively identify at least 30 additional small businesses. GSA hopes to gain insights into the specific challenges faced by small

businesses in GHG emissions measurement and reporting, to inform future decisions in support of sustainable federal procurement.

GSA will increase solid waste recycling across its inventory of federal buildings. GSA provides almost 370 million square feet of office space for over a million federal employees in over 9,600 federal buildings and leases across the country. Among those assets are over 1,500 federally-owned buildings, where GSA provides building maintenance, including janitorial services, waste disposal, and recycling programs. GSA can improve the environmental performance of the federal government by increasing recycling in federal buildings, thus reducing the volume of waste that is shipped to landfills.

In FY 2010, GSA began pilot projects to increase recycling in federal buildings. GSA conducted solid waste surveys, identified best practices, and trained building managers to increase recycling in 28 buildings. GSA will use the results of these pilot projects to transfer best practices for recycling across GSA's inventory of federally-owned buildings.

GSA also set aggressive targets for increasing recycling volumes in federal buildings, committing to increase recycling by at least 10 percent in the 18 federal buildings where GSA tracks recycling volumes. This goal is equivalent to recycling 649 tons of materials per quarter. In the second quarter of FY 2010, GSA missed that target by only 44 tons; however, GSA exceeded the target in the third quarter FY 2010, recycling a total of 664 tons. The third quarter increase in recycling rates reflects increased outreach efforts to building managers and tenants.

STRATEGIC GOAL: CUSTOMER INTIMACY

High-Priority Performance Goal: Open Government and Transparency. GSA will drive greater transparency and openness in government through the adoption of agile technologies, processes, and expertise for citizen engagement and collaboration built around innovative solutions that provide a more effective, citizen-driven government.

GSA's mission is to help other federal agencies to fulfill their missions. GSA supports other agencies by combining products, services, and expertise to offer effective and efficient solutions to help them meet their policy objectives. GSA developed a particular expertise in delivering government information and services directly to citizens and helping other federal agencies improve their interactions with the public. GSA is using its strength in this area to improve the effectiveness of government by helping other agencies improve their interactions with citizens, engage citizens in government, and increase transparency in government.

In FY 2010, agencies across the federal government adopted GSA-provided citizen engagement tools for over 100 discrete citizen engagement opportunities. Citizen engagement tools are social media tools that allow agencies to collaborate with citizens by offering a forum for citizens to introduce new ideas and concepts. In one example, GSA provided an online engagement tool that allowed 22 federal agencies to post their Open Government Plans and solicit input from the public. The tool allowed citizens to post ideas to improve the plans and to vote on the ideas of others. Over 2,100 new ideas were submitted, and over 21,000 votes were cast on ideas submitted through these tools.

Also in FY 2010, GSA launched Challenge.gov, which offers free software applications for federal agencies to use to hold contests and challenges. Challenges offer prizes to individuals or teams of collaborators who develop creative solutions to tough problems. Since its launch, Challenge.gov has facilitated over 43 challenges from 21 different federal agencies. In September 2010, challenges on Challenge.gov were viewed over 77,000 times by citizens from every U.S. state and over 4,800 cities.

GSA citizen-facing tools and programs produced over 181 million citizen interactions in FY 2010. GSA's citizen interactions include federal government information and consumer action print publications ordered from GSA, phone calls answered and e-mail inquiries received by GSA-operated contact centers, and web clicks on USA.gov and GobiernoUSA.gov, the web portal of the federal government. GSA citizen interactions connect millions of Americans with the government information and services

they need. Recent upgrades to USA.gov improved site design, enhanced search capability, and offer new, mobile applications, to increase citizen interactions, thus improving transparency and citizens engagement with their government.

STRATEGIC GOAL: OPERATIONAL EXCELLENCE

High-Priority Performance Goal: Excellence in Solutions Delivery. As the government's expert in real estate, GSA will work with customer agencies to develop strategic portfolio plans that best meet mission workplace needs, manage customer real estate costs, and maximize the performance of the GSA inventory.

GSA strives for performance excellence, process improvement, and the most efficient and effective use of government assets. GSA effectively manages its real property assets by maintaining very low vacancy rates and continuously seeking new means to increase the efficient use of occupied space. GSA provides almost 370 million square feet of space to over 60 federal agencies and commissions, and collaborates with those tenants to help them more effectively use their space.

In FY 2010, GSA introduced strategic portfolio plans to map out a comprehensive plan for the long-term space requirements of major customer agencies. Portfolio plans improve federal asset management because they provide a forum for strategic decisions about workspace needs, which will guide multiple, point-specific decisions over time.

GSA began developing a pilot program for strategic portfolio plans in FY 2010 and has identified four potential customer agencies for pilot implementation. GSA developed a draft portfolio planning model and is currently evaluating the workspace data of those potential customers. GSA will compare the agency workspace utilization to data on real estate markets and available inventory and will assess portfolio plan implementation options based on the results. In FY 2011, GSA will complete strategic portfolio plans for at least three major customers, providing long-term plans to increase the efficiency of their workspace and optimize GSA utilization of federal real property assets.

FINANCIAL STATEMENTS ANALYSIS AND SUMMARY

KPMG LLP issued an unqualified “clean” opinion on GSA’s FY 2010 financial statements. Agency management is accountable for the integrity of the financial information presented in the financial statements. The financial statements and financial data presented in this report have been prepared from GSA’s accounting records in conformity with generally accepted accounting principles (GAAP) as prescribed by the Federal Accounting Standards Advisory Board. The Consolidating Statements of Net Cost presents by major program and activity the revenues and expenses incurred to provide goods and services to our customers. This presentation does not directly align with the strategic and performance goals which focus on qualitative aspects such as Innovation, Customer Intimacy, and Operational Excellence.

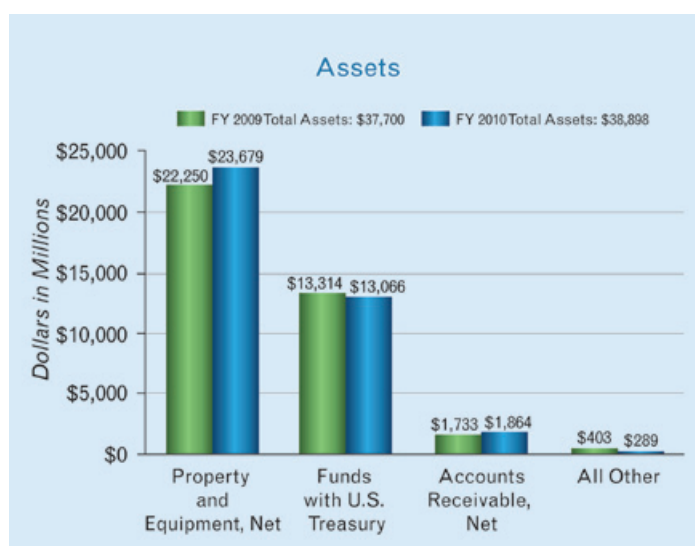
CONSOLIDATED FINANCIAL RESULTS

GSA Assets

GSA assets include federal buildings, motor vehicles, and office equipment (Property and Equipment); cash balances held in the U.S. Treasury (Fund Balance with Treasury); and debts owed to GSA from other federal agencies, primarily for sales transactions or rent that was not collected at the end of FY 2010 (Accounts Receivable).

The largest change in GSA assets occurred in Property and Equipment, which increased by \$1.4 billion. Buildings (net of depreciation) increased by \$490 million because of completion of several large modernization and construction projects. Additionally, Property and Equipment increased because of an \$843 million increase in Construction in Process and Software in Development.

This line item will continue to increase in the coming years as work continues on the Recovery Act projects.



GSA Liabilities

GSA liabilities are primarily amounts owed to commercial vendors but not yet paid (accounts payable) and amounts GSA owes to other federal entities (Intragovernmental Debt). From FY 2009 to FY 2010, Accounts Payable (AP) and Accrued Expenses increased by \$111 million, primarily because of an \$85 million increase in the Acquisition Services Fund (ASF). Additionally, the “All Other” category presented in the chart to the left, increased by \$162 million primarily because of an increase in Environmental and Disposal Liabilities. In FY 2010, seven new claims totaling \$97 million were determined to have a probable loss amount.

FINANCIAL RESULTS BY MAJOR FUND – FEDERAL BUILDINGS FUND

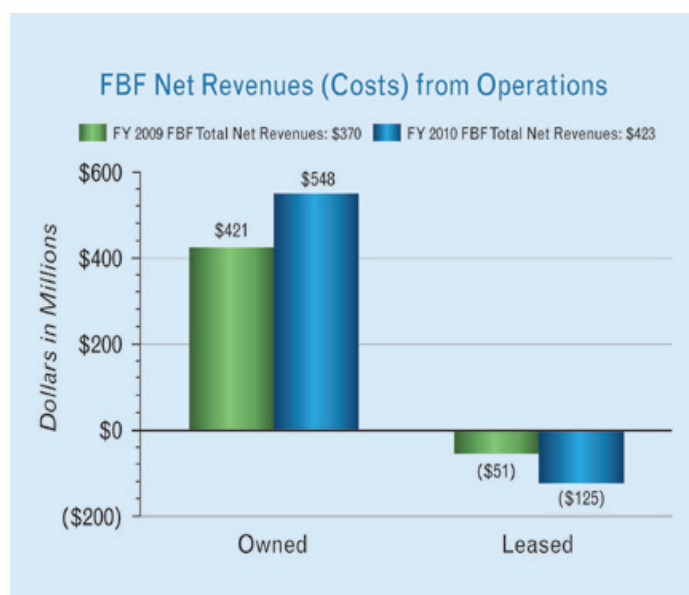
The Federal Buildings Fund (FBF) is the primary fund of GSA's Public Buildings Service (PBS). PBS provides workplaces for federal agencies and their employees. As the largest public real estate organization in the nation, PBS owns and leases 9,600 properties, maintains an inventory of almost 370 million square feet of workspace. FBF is primarily supported by rent paid to GSA from other federal entities.

FY 2010 FBF revenue was \$10.5 billion, with over half the revenue from five federal customer agencies shown in the "FBF's Top 5 Customers" table.

FBF Net Revenues from Operations

FBF Net Revenues from Operations represent the amounts remaining after the costs of operating GSA owned and leased buildings are subtracted from revenue. Net Revenues from Operations are used to invest in major repairs and alterations to federal buildings and to partially offset costs of constructing new federal buildings.

FBF's Top 5 Federal Customers	Revenues (Dollars in Millions)	Percentage of Total Revenues
Department of Justice	\$1,653	16%
Department of Homeland Security	\$1,555	15%
Federal Judiciary	\$1,102	11%
Department of the Treasury	\$799	8%
Social Security Administration	\$727	7%



Revenues and expenses in FBF are primarily from building operations and rent. FBF also operates a Reimbursable Work Authorization (RWA) program, which provides customer agencies with alterations and improvements in GSA space, above what is specified in the base rental agreement. Overall FBF net revenues increased 14.3 percent, or \$53 million, to \$423 million in FY 2010. The overall net revenue for FY 2010 was comprised of \$548 million in net revenues for Owned properties and \$125 million in net costs for Leased buildings operations. The Recovery Act increased leased expenses as GSA added swing space to house clients while owned properties are renovated. Roughly \$39 million in leasing costs were attributable to Recovery Act projects. These costs have no matching revenue as they are not charged to our customers.

FBF Obligations and Outlays

In the FBF, obligations are primarily the cost of contracts awarded to commercial vendors for the construction of new federal buildings; for repairs, cleaning, utilities and other maintenance of GSA-owned federal buildings; and lease and related payments to commercial landlords for space leased by GSA for federal agencies.

FBF Obligations increased by more than \$3.2 billion between FY 2009 and FY 2010. Approximately \$2.4 billion of this increase is attributable to the orders GSA placed with Recovery Act funds.

FBF Obligations and Outlays (Dollars in Millions)	FY 2010	FY 2009	Change (\$)	Change (%)
Obligations	\$14,886	\$11,635	\$3,251	27.94%
Gross Outlays	\$11,232	\$10,183	\$1,049	10.30%
Offsetting Collections	\$10,444	\$9,935	\$509	5.12%

Outlays are payments made by the government, once goods and services are received at an acceptable level of quality and completeness. Offsetting collections represent revenues collected from other federal agencies that "offset" expenditures made by GSA on behalf of other federal agencies.

FINANCIAL RESULTS BY MAJOR FUND – ACQUISITION SERVICES FUND

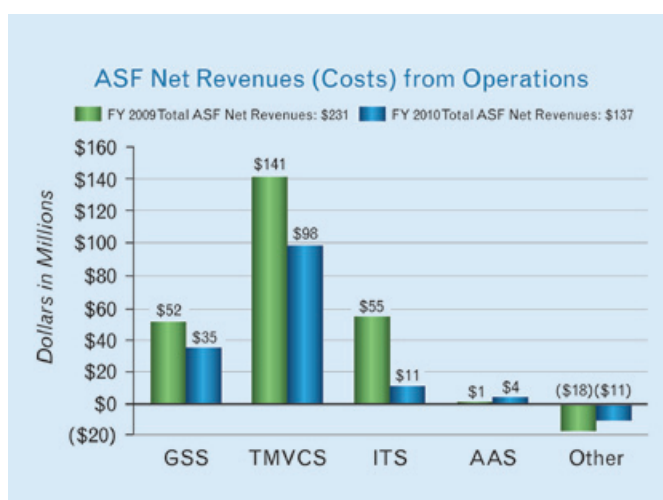
ASF is a revolving fund which operates on the revenue generated from its business rather than an appropriation received from Congress, and is the primary fund of GSA's Federal Acquisition Service (FAS). FAS business operations are organized into four business portfolios based on the product or service provided to customer agencies: General Supplies and Services (GSS); Travel, Motor Vehicle, and Card Services (TMVCS); Integrated Technology Services (ITS); and Assisted Acquisition Services (AAS). FAS consolidates common requirements from multiple federal agencies and uses its negotiating expertise to acquire products and services at better prices and terms than individual agencies could obtain individually.

In FY 2010, ASF realized over \$9.4 billion in revenues. Of these revenues, 75 percent were from the five agencies shown in the "ASF's Top 5 Federal Customers" table.

ASF's Top 5 Customers	Revenues (Dollars in Millions)	Percentage of Total Revenues
Department of Defense	\$5,478	59%
Department of Homeland Security	\$566	6%
Department of Agriculture	\$361	4%
Department of Justice	\$320	3%
Department of Health	\$298	3%

ASF Net Revenues from Operations

ASF Net Revenues from Operations represent the amounts remaining after the costs of goods and services sold and FAS operating expenses are subtracted from revenues earned during the year. Net Revenues from Operations are used to invest in the GSA Fleet, as well as information systems and other investments necessary to improve FAS responsiveness to its customers and to comply with new regulatory and statutory requirements.



ASF Net Revenues decreased by 40.7 percent to \$137 million in FY 2010, from \$231 million in FY 2009. In ASF's TMVCS portfolio both revenues and expenses decreased leading to a \$43 million decrease in net revenues, from \$141 million in FY 2009 to \$98 million in FY 2010. The decrease in TMVCS Net Revenues was caused by petroleum costs which increased by roughly \$50 million, and \$37 million in increased depreciation expense on motor vehicles due to fewer vehicle replacements, lower salvage values, and accelerated depreciation on vehicles in Iraq. In ASF's ITS net revenues decreased by \$44 million. While both revenues and expenses decreased for ITS, the decrease in net revenues is primarily due to higher costs associated with the transition to the Networkx contracts for long distance telecommunications and related services.

ASF Obligations and Outlays

ASF obligations and outlays are primarily driven by contracts awarded to commercial vendors to provide goods and services to federal agencies. From FY 2009 to FY 2010, obligations and outlays in ASF both increased because of increased business volume.

ASF Obligations and Outlays (Dollars in Millions)	FY 2010	FY 2009	Change (\$)	Change (%)
Obligations	\$10,891	\$10,740	\$151	1.41%
Gross Outlays	\$10,049	\$10,008	\$41	0.41%
Offsetting Collections	\$10,232	\$10,259	(\$27)	-0.26%

Limitations of Financial Statements

The principal financial statements report the financial position and results of GSA operations, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from GSA books and records in accordance with GAAP for federal entities and the format prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government.

GSA MANAGEMENT ASSURANCES



STATEMENT OF ASSURANCE

The U.S. General Services Administration's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). GSA conducted its assessment of the effectiveness of internal control over operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, GSA can provide reasonable assurance that internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations met the objectives of FMFIA and no material weaknesses were found in the design or operation of the internal controls as of September 30, 2010.

This system of internal controls is being used to support the American Recovery and Reinvestment Act (Recovery Act) awards made at GSA. In FY 2010, GSA performed an assessment of risks related to the Recovery Act and overall GSA program risks. This assessment, combined with management's assessment of internal controls enables GSA to provide reasonable assurance that the key accountability objectives of the Recovery Act are being met and that significant risks to meeting these Recovery Act accountability objectives are adequately mitigated.

GSA conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular A-123. Based on the results of this assessment, GSA can provide reasonable assurance that its internal control over financial reporting as of September 30, 2010 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management systems requirements, federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. In addition, OMB Circular A-127 requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management systems requirements, federal accounting standards, and the USSGL. GSA assessed its degree of substantial compliance by utilizing the FFMIA Risk Model. GSA's financial management systems were found to substantially comply with FFMIA as of September 30, 2010.



Martha Johnson

Administrator

November 10, 2010

GSA MANAGEMENT AND INTERNAL CONTROL PROGRAM – FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT SECTION 2

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish internal control and financial systems that provide reasonable assurance that the three objectives of internal control are achieved:

- Effectiveness and efficiency of operations;
- Compliance with applicable laws and regulations; and
- Reliability of financial reporting.

FMFIA requires that the head of the agency, based on evaluation, provide an annual Statement of Assurance on whether the agency has met these requirements. Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, implements the FMFIA and defines management's responsibility for internal control in federal agencies. FMFIA also requires agencies to establish internal controls over their programs, financial reporting, and financial management systems. GSA internal control reviews are conducted for agency program components to ensure that all significant risks are identified, tested, evaluated, and mitigated timely and effectively. These reviews also ensure that audit findings are responded to in a timely and effective manner and corrective action plans are implemented. GSA provides assurance on the effectiveness of the internal control over operations, management systems, and financial reporting for FY 2010 with consideration to all internal and external reviews of the agency. The "Summary of GSA's Financial Statement Audit and Management Assurances" table is provided in the Other Accompanying Information section of this report.

In FY 2010, GSA continued to strengthen management practices and internal controls to assure the integrity of its programs, operations, and business and financial management systems. This effort included an increased focus on risk management and risk analysis on all programs. GSA successfully completed all the

requirements of OMB Circular A-123; the Office of Federal Procurement Policy's (OFPP) Memorandum entitled, "Conducting Acquisition Assessments under OMB Circular A-123"; the FMFIA; OMB Circular A-127 *Financial Management Systems*; the Federal Financial Management Improvement Act (FFMIA); and the Federal Information Security Management Act (FISMA) as the foundation of effective management operations and internal controls.



In FY 2010, GSA management emphasized the coordination and leveraging of programmatic internal control reviews, financial reporting and system control reviews, acquisition assessment reviews, programmatic risk assessments and real-time management reviews of Recovery Act internal controls and awards. The Recovery Act authorized the Public Buildings Service to invest \$5.6 billion in federal public building projects. This includes \$4.5 billion to transform federal facilities into high-performance green buildings, \$750 million to renovate and construct new federal offices and courthouses, and \$300 million to construct and renovate border stations. As a result of the Recovery Act funding, GSA developed and implemented risk assessments and internal control methodologies to ensure funds are awarded and distributed in a prompt, fair, reasonable, and legal manner, and that Recovery Act expenditures are transparent to the public. These coordinated, risk-based review efforts

achieved benefits by leveraging existing core competencies, reducing duplicative reviews, increasing compliance with all applicable laws and regulations, and reducing the internal control review burden on all GSA programs and organizational components.

In FY 2010, the Procurement Management Review (PMR) team collaborated with the Office of the Chief Financial Officer A-123 Internal Control Review team to jointly conduct financial and acquisition reviews in several regions. A portion of these PMR reviews assessed the effectiveness of the specific control deficiencies identified by GSA external auditors. By analyzing activities from both an acquisition and financial perspective, GSA addressed control issues that involved financial and acquisition functions. As these reviews are completed, all review results are presented to management through the GSA Management Control and Oversight Committee and Senior Assessment Team, as the basis for determining the state of management assurances. Any identified control deficiencies are tracked through a database application and monitored for timely and accurate implementation of corrective actions.

Based on inputs from external auditor test results, several significant control deficiencies were identified that still need to be remedied by agency management. These significant deficiencies relate to the following areas:

- Controls over accounting and reporting of environmental liabilities;
- Controls over accounting and reporting of general property and equipment;
- Controls over budgetary accounts and transactions;
- Controls over the revenue and expense recognition policies; and
- General and application controls over financial management systems.

Notwithstanding the aforementioned areas that require additional improvement actions, GSA can provide reasonable assurance that its internal control over financial reporting is operating effectively and that there are no material weaknesses relating to the design or operation of internal control over financial reporting.

GSA MANAGEMENT AND INTERNAL CONTROL PROGRAM – FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT – SECTION 4

As required by law, GSA evaluates its financial management systems annually for compliance with federal financial management systems requirements, applicable federal accounting standards, and U.S. Standard General Ledger (USSGL) recording and reporting requirements. GSA evaluated its financial management system controls and compliance using a consolidated A-123 and A-127 questionnaire and by completing independent systems certification and accreditation reviews, Statement on Auditing Standards 70 reports, A-123 reviews, and evaluating risk indicators contained in the FFMIA Compliance Risk Model. As in prior years, additional compliance review steps included a review of pertinent audit reports issued in FY 2010, a review of the current status of prior year systems-related issues, and discussions with senior managers and auditors regarding the details of pertinent systems-related control issues. Taken as a whole, GSA is confident that these systems-related review activities provide a sufficient basis for assessing Agency compliance with Section 4, FMFIA and FFMIA requirements.

Based on all review work performed in FY 2010, Agency management believes that GSA is in substantial compliance with the requirements referred to in Section 4 of FMFIA. This conclusion is supported by actions completed in the past year to enhance financial reporting and information technology (IT) system controls. For example, in FY 2010 more than 119 actions were completed to fully or partially resolve financial systems-related issues and findings. These conditions related to general and application controls for several GSA financial management systems.

Several significant improvements were made by GSA in FY 2010 to strengthen GSA IT system controls in the areas of segregation of duties, and logging and monitoring controls. However, despite this significant progress, external audit results indicated that some additional actions are still needed to improve system access and segregation of duty controls for certain IT systems. Accordingly, GSA will focus on taking these additional short-term and longer-term actions to continue to enhance its managerial, operational, and technical systems controls for critical program and financial management systems. Planned improvement actions include the implementation of an automated and centralized Identity Credentialing and Access Management (ICAM) System. This system should streamline, standardize, and enhance the daily management of system access and system monitoring activities on a “least-privileged basis”. In addition, further actions will be taken to improve segregation of responsibilities and logging and monitoring controls.

In assessing compliance with FFMIA, GSA adheres to the revised FFMIA implementation guidance provided by OMB and considers the results of the GSA Office of the Inspector General and Government Accountability Office audit reports, annual financial statement audits, Federal Information Security Management Act (FISMA) compliance reviews, risk assessments, and other systems-related review and monitoring activities.

Based on all information assessed, the Administrator has determined that GSA financial management systems are in substantial compliance with FFMIA requirements for FY 2010.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

FISMA requires federal agencies to implement a mandatory set of processes and system controls to ensure the confidentiality, integrity, and availability of system-related information and information resources. Processes implemented within each federal agency must follow a set of established Federal Information Processing Standards (FIPS), and National Institute of Standards and Technology (NIST) and other legislative requirements

pertaining to federal information systems, such as the Privacy Act of 1974.

To ensure compliance with FISMA requirements, GSA maintains a formalized program for information security management that is focused on meeting FISMA requirements, protecting GSA information resources, and thereby, supporting GSA's mission. This program is supported by a set of established policies, procedures, and processes to mitigate new threats and anticipate risks posed by new technologies. Designated GSA information system security managers (ISSMs) and information system security officers (ISSOs) ensure that information security requirements are being implemented in accordance with FISMA requirements and GSA policies.

In FY 2010, GSA continued to strengthen its security posture by addressing weaknesses identified in its Plan of Action and Milestones and FISMA performance measures. For example, by the end of FY 2010, GSA fully certified and accredited 100 percent of its information systems in accordance with NIST requirements. In addition, more than 14,900 GSA employees and contractors completed IT security awareness training and 97 percent of all GSA employees with significant security responsibilities completed specialized role-based training. Also, Privacy Impact Assessments were completed on all applicable systems, and GSA continues to implement the provisions in OMB M-06-15, *Safeguarding Personally Identifiable Information*. In FY 2010, GSA also scanned over 18,000 workstations and servers for vulnerabilities as part of its ongoing IT systems vulnerability scanning program. Hundreds of web servers and databases servers were scanned with special tools designed for these platforms. GSA recently implemented an agent on workstation PCs that can monitor software inventory, workstation configuration and patch levels, and harden and patch systems, as necessary. In FY 2011, GSA plans to improve its continuous monitoring program and its FISMA program performance measures consistent with OMB guidance being developed in this area.

FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

Strategic Overview

The CFO Act assigns clear responsibilities for planning, developing, maintaining, and integrating financial management systems within federal agencies. As depicted on the Financial Management Systems Framework chart on page 26, GSA currently maintains a core accounting system, Pegasys, in addition to its E-payroll applications, portions of its legacy core accounting system, NEAR, and its general support systems which operate on a variety of hosting platforms to support various feeder and support applications.

GSA financial systems strategies for the future include:

1. retiring its legacy accounting system, NEAR, by transferring its billing and accounts receivable (BAAR) and other remaining functionality to Pegasys;
2. implementing the Common Government-wide Accounting Classification (CGAC) structure;
3. enhancing its E-Payroll system capabilities; and
4. more fully integrating its financial applications while streamlining, consolidating, and modernizing financially-oriented general support systems.

These strategies support GSA financial management system goals of reducing financial system operating and maintenance costs, continuing to enhance compliance and IT security controls, and improve financial management and human resource system service offerings as a shared service provider of Human Resources and Financial Management services to other government agencies.

Ongoing Financial System Initiatives

To achieve these strategic goals, GSA continued to make substantial progress in its financial system modernization and improvement efforts in pursuit of

its targeted financial management systems framework. Major efforts included:

1. Replacing Billing and Accounts Receivable functionality.

The objectives of this project are to retire and replace current NEAR system functionality, which is currently one of the most complex accounting processes, involving \$18.5 billion in billings, 2.4 million records, and 70 different sources of revenue, with BAAR. The current system generates 27 different types of bills to support GSA business lines and billing types.

In FY 2010, significant progress was made to complete the system design and configuration for phase 1 of the BAAR system which includes rent bills for the Public Building Service and fleet bills for the Federal Acquisition Service. The anticipated benefits from BAAR include: increased billing and accounts receivable standardization; increased efficiencies from removing labor-intensive and redundant processes; more secure customer system access for paying bills, accessing billing and discrepancy information, billing history information, and accessing customer bills and statements; and improved capabilities for delinquency management. After NEAR system functionality is transferred to the Pegasys system, NEAR will be retired.

2. Implementing the Common Government-wide Accounting Classification structure.

GSA is implementing the CGAC structure. In FY 2010, GSA made considerable progress in converting its cost elements to the new CGAC-compliant sub-object class coding structure. Remaining implementation efforts will be completed over two remaining project phases.

Once fully implemented, this accounting system change will standardize and streamline data capture, promote a consistent basis to compare and measure performance, and enhance the reliability and efficiency of mandated reporting as well as reporting to support decision making.

3. Enhancing E-Payroll Applications to support the HR Line of Business.

To support its customer needs and the Human Resources Line of Business, GSA is enhancing its electronic time and attendance system (ETAMS) by automating the submission of leave and overtime data and ensuring that all E-payroll applications are fully Section 508 compliant.

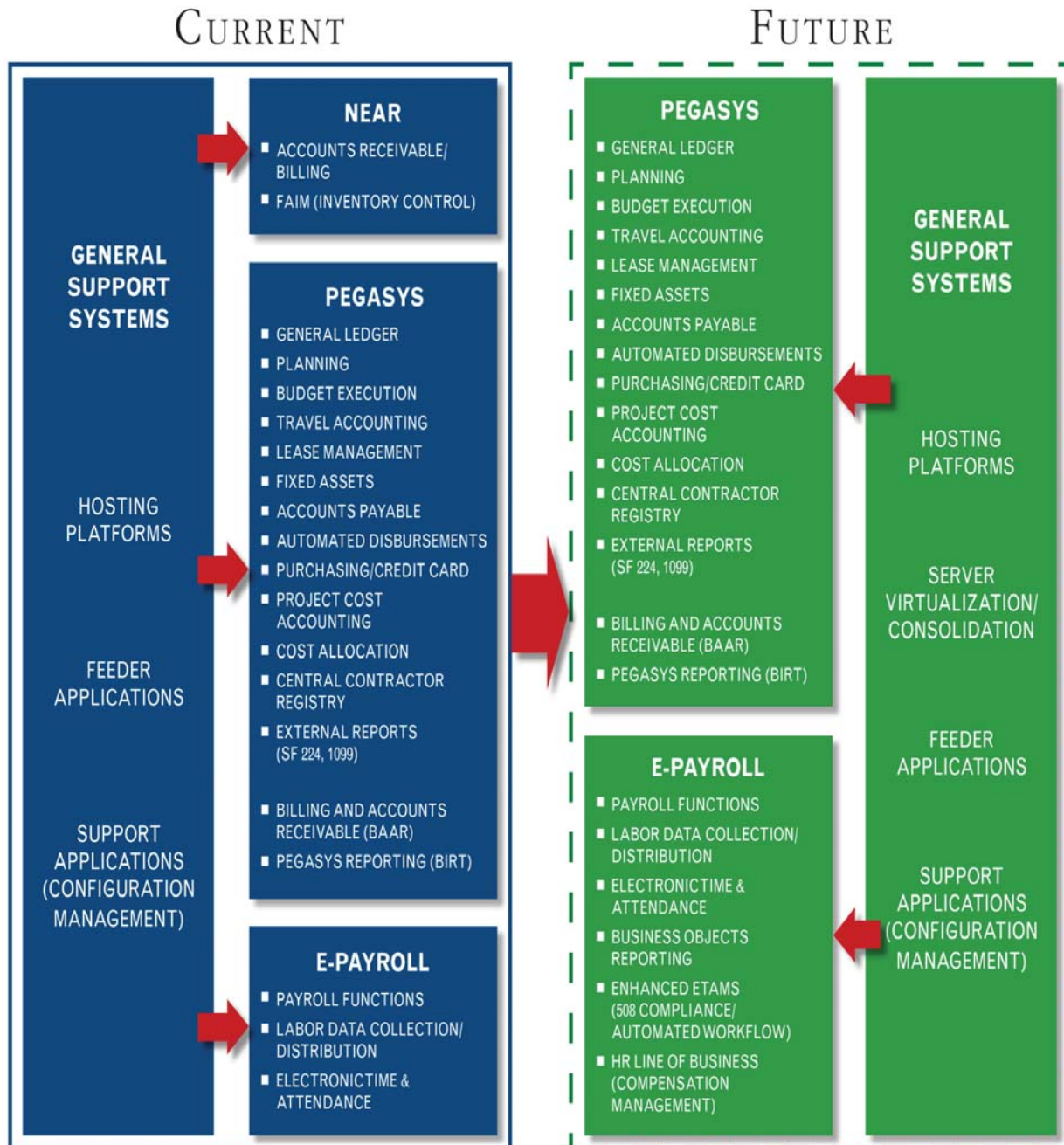
4. Streamlining and modernizing financial general support systems.

To realize its targeted systems framework for its financial general support systems, GSA plans to: continue consolidating its hosting platforms and data centers for financial systems; reduce its footprint by consolidating and implementing virtualization technology; reduce the number of servers required to support its financial systems; and continue to decommission several of its smaller and older legacy financial management systems.

In FY 2010, considerable progress was made to bolster hosting platforms, consolidate data centers, decommission 40 Business Object universes and 11 legacy financial support applications, and reduce the footprint of hosting platforms by eliminating the need for 36 servers for a 17 percent reduction in maintenance and energy costs.

The anticipated benefits of these actions include reduced costs, increased efficiency, a smaller environmental footprint, improved customer service, and increased system modernization and integration in a more highly-secured processing environment.

FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK



FINANCIAL SECTION



LETTER FROM THE CHIEF FINANCIAL OFFICER

In FY 2010, GSA made significant progress in financial management and again obtained an unqualified “clean” opinion on its FY 2010 consolidated financial statements and clean opinions on the Statement on Auditing Standards 70 reports. There were no material weaknesses identified by the independent auditors.

Throughout the year, GSA demonstrated sound financial planning and management, while meeting the challenges associated with stewardship of \$5.9 billion in American Recovery and Reinvestment Act of 2009 funds.

The GSA financial community led multiple process improvements, including:

- Elimination of two significant deficiencies related to:
 - Controls over accounting and disclosures of rental income from non-cancellable occupancy agreements; and
 - Continued reliance on the worksheet adjustment process to produce financial statements and to ensure that account balances are not significantly misstated. Since this issue was identified in the FY 2008 audit, GSA reduced worksheet adjustments from \$5.5 billion in FY 2008 to \$1.5 billion in FY 2010.
- Continuing the development of a standardized billing and accounts receivables (BAAR) system that will provide a unified billing process for GSA services and produce a standard bill format for GSA customers who will have online access to their bills. GSA is on schedule to implement the first phase of the system in July 2011.



- Reducing the number of annual paper invoices GSA receives by 25 percent. Electronic invoices increase the accuracy of accounting data, reduce workload and processing time, and improve GSA sustainability.

- Eliminating the manual processing and storage of over 36,000 paper documents each year. GSA reduced costs and increased efficiency by scanning and storing the documents electronically.

- Improving the payment re-capture process to expedite the collection of payments improperly made by GSA. In the past, GSA sometimes took over a year to determine if a payment identified as possibly improper should be sent for collection. In FY 2010, GSA reduced the review to 60 days.

Challenges and opportunities remain, particularly in improving the integration of GSA business and financial systems and strengthening information technology controls.

GSA's FY 2010 Agency Financial Report reflects our commitment to accountability and financial integrity in all financial management services we provide to over 50 internal and external customers. I am pleased to present the FY 2010 financial results, demonstrating our commitment to drive improvements throughout the GSA financial management program.

Alison L. Doone

Chief Financial Officer

November 10, 2010

U.S. General Services Administration

PRINCIPAL FINANCIAL STATEMENTS**Consolidating Balance Sheets**

As of September 30, 2010 and 2009

(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
ASSETS										
Intragovernmental Assets:										
Fund Balance with Treasury (Notes 1-D, 2)	\$ 11,254	\$ 11,664	\$ 1,155	\$ 972	\$ 657	\$ 678	\$ -	\$ -	\$ 13,066	\$ 13,314
Accounts Receivable - Federal, Net (Note 4)	479	481	1,262	1,174	3	7	22	45	1,722	1,617
Prepaid Expenses and Advances - Federal	-	-	1	1	-	-	-	-	1	1
Total Intragovernmental	11,733	12,145	2,418	2,147	660	685	22	45	14,789	14,932
Inventories (Note 1-E)	6	4	215	255	-	-	-	-	221	259
Accounts Receivable - Public, Net (Note 4)	20	6	97	79	25	31	-	-	142	116
Other Assets	48	39	16	4	7	108	4	8	67	143
Property and Equipment (Notes 1-F,5):										
Buildings	32,509	31,019	-	-	-	-	-	-	32,509	31,019
Leasehold Improvements	257	261	29	28	-	-	-	-	286	289
Telecommunications and ADP Equipment	-	-	91	93	-	-	-	-	91	93
Motor Vehicles	-	-	4,654	4,466	-	-	-	-	4,654	4,466
Other Equipment	133	118	213	208	129	105	-	-	475	431
Less: Accumulated Depreciation and Amortization	(16,881)	(15,872)	(1,836)	(1,682)	(89)	(75)	-	-	(18,806)	(17,629)
Subtotal	16,018	15,526	3,151	3,113	40	30	-	-	19,209	18,669
Land	1,628	1,582	-	-	-	-	-	-	1,628	1,582
Construction in Process and Software in Development	2,828	1,993	14	6	-	-	-	-	2,842	1,999
Total Property and Equipment, Net	20,474	19,101	3,165	3,119	40	30	-	-	23,679	22,250
Total Assets	\$ 32,281	\$ 31,295	\$ 5,911	\$ 5,604	\$ 732	\$ 854	\$ 26	\$ 53	\$ 38,898	\$ 37,700
LIABILITIES AND NET POSITION										
Intragovernmental Liabilities:										
Accounts Payable and Accrued Expenses - Federal	\$ 54	\$ 55	\$ 27	\$ 20	\$ 12	\$ 34	\$ 22	\$ 45	\$ 71	\$ 64
Deferred Revenue and Advances - Federal	6	7	13	24	5	8	4	8	20	31
Intragovernmental Debt (Notes 6, 11)	1,973	2,037	-	-	-	-	-	-	1,973	2,037
Other Intragovernmental Liabilities (Notes 9, 11)	387	361	10	11	57	67	-	-	454	439
Total Intragovernmental	2,420	2,460	50	55	74	109	26	53	2,518	2,571
Accounts Payable and Accrued Expenses - Public	1,235	1,209	1,119	1,041	23	23	-	-	2,377	2,273
Environmental and Disposal Liabilities (Notes 5, 10, 11)	99	103	-	-	105	4	-	-	204	107
Obligations Under Capital Leases (Notes 8, 11)	233	248	-	-	-	-	-	-	233	248
Workers' Compensation Actuarial Liability (Notes 7, 11)	89	89	31	32	15	15	-	-	135	136
Annual Leave Liability (Notes 1-G, 11)	55	51	33	31	22	22	-	-	110	104
Deposit Fund Liability	-	-	-	-	39	54	-	-	39	54
Other Liabilities (Notes 9, 11)	470	403	21	18	51	35	-	-	542	456
Total Liabilities (Note 10)	4,601	4,563	1,254	1,177	329	262	26	53	6,158	5,949
NET POSITION (Note 14)										
Cumulative Results of Operations	23,002	21,084	4,657	4,427	287	448	-	-	27,946	25,959
Unexpended Appropriations	4,678	5,648	-	-	116	144	-	-	4,794	5,792
Total Net Position	27,680	26,732	4,657	4,427	403	592	-	-	32,740	31,751
Total Liabilities and Net Position	\$ 32,281	\$ 31,295	\$ 5,911	\$ 5,604	\$ 732	\$ 854	\$ 26	\$ 53	\$ 38,898	\$ 37,700

The accompanying notes are an integral part of these statements.

U.S. General Services Administration

Consolidating Statements of Net Cost

For the Fiscal Years Ended September 30, 2010 and 2009

(Dollars in Millions)

	2010			2009		
	Revenues	Expenses	Net Revenues from (Cost of) Operations	Revenues	Expenses	Net Revenues from (Cost of) Operations
FEDERAL BUILDINGS FUND						
Building Operations - Government Owned	\$ 4,390	\$ 3,842	\$ 548	\$ 4,202	\$ 3,781	\$ 421
Building Operations - Leased	6,064	6,189	(125)	5,830	5,881	(51)
Subtotal	10,454	10,031	423	10,032	9,662	370
ACQUISITION SERVICES FUND						
General Supplies and Services	1,824	1,789	35	1,623	1,571	52
Travel, Motor Vehicles, and Card Services	2,085	1,987	98	2,296	2,155	141
Integrated Technology Services	1,467	1,456	11	1,448	1,393	55
Assisted Acquisition Services	3,937	3,933	4	3,800	3,799	1
Other Programs	49	60	(11)	46	64	(18)
Subtotal	9,362	9,225	137	9,213	8,982	231
OTHER FUNDS						
Working Capital Fund	433	432	1	448	446	2
GSA Operating Expense and Government-wide Policy Funds	21	149	(128)	27	145	(118)
Other Funds	50	263	(214)	21	154	(133)
Subtotal	503	844	(341)	496	745	(249)
INTRA-GSA ELIMINATIONS (Note 1-B)						
Less: Intra-GSA Eliminations	777	825	(48)	993	1,033	(40)
GSA Consolidated Totals	\$ 19,542	\$ 19,275	\$ 267	\$ 18,748	\$ 18,356	\$ 392

The accompanying notes are an integral part of these statements.

U.S. General Services Administration

Consolidating Statements of Changes in Net Position

For the Fiscal Years Ended September 30, 2010 and 2009

(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Beginning Balance of Net Position:										
Cumulative Results of Operations	\$ 21,084	\$ 19,006	\$ 4,427	\$ 4,141	\$ 448	\$ 314	\$ -	\$ -	\$ 25,959	\$ 24,361
Unexpended Appropriations	5,648	182	-	-	144	98	-	-	5,792	280
Net Position Beginning Balance	26,732	20,088	4,427	4,141	592	412	-	-	31,751	24,641
Results of Operations:										
Net Revenue From (Cost of) Operations	423	370	137	231	(341)	(249)	(48)	(40)	267	392
Appropriations Used (Note 1-C)	1,408	731	-	-	264	487	-	-	1,672	1,218
Non-Exchange Revenue (Notes 1-C, 1-D)	3	13	-	-	39	121	-	-	42	134
Imputed Financing Provided By Others	89	66	59	49	35	31	48	40	135	106
Transfer of Earnings Paid and Payable to U.S. Treasury	-	-	-	-	(15)	(97)	-	-	(15)	(97)
Transfers of Net Assets and Liabilities (To) From Other Federal Agencies	(5)	(2)	34	6	(140)	(156)	-	-	(111)	(152)
Other	-	-	-	-	(3)	(3)	-	-	(3)	(3)
Net Results of Operations	1,918	1,178	230	286	(161)	134	-	-	1,987	1,598
Changes in Unexpended Appropriations:										
Appropriations Received	538	6,201	-	-	266	534	-	-	804	6,735
Appropriations Used	(1,408)	(731)	-	-	(264)	(487)	-	-	(1,672)	(1,218)
Appropriations Adjustments and Transfers From Other Agencies or Funds	(100)	(4)	-	-	(30)	(1)	-	-	(130)	(5)
Net Change in Unexpended Appropriations	(970)	5,466	-	-	(28)	46	-	-	(998)	5,512
Ending Balance of Net Position:										
Cumulative Results of Operations	23,002	21,084	4,657	4,427	287	448	-	-	27,946	25,959
Unexpended Appropriations	4,678	5,648	-	-	116	144	-	-	4,794	5,792
Net Position Ending Balance	\$ 27,680	\$ 26,732	\$ 4,657	\$ 4,427	\$ 403	\$ 592	\$ -	\$ -	\$ 32,740	\$ 31,751

The accompanying notes are an integral part of these statements.

U.S. General Services Administration

Combining Statements of Budgetary Resources

For the Fiscal Years Ended September 30, 2010 and 2009

(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		GSA COMBINED TOTALS	
	2010	2009	2010	2009	2010	2009	2010	2009
BUDGETARY RESOURCES:								
Unobligated Balance, Net - Beginning Balance	\$ 9,290	\$ 4,420	\$ 1,298	1,258	\$ 233	\$ 210	\$ 10,821	\$ 5,888
Prior Year Recoveries	240	92	240	187	20	13	500	292
Budget Authority:								
Appropriations	538	6,201	-	-	293	559	831	6,760
Spending Authority:								
Earned Revenue	10,442	10,017	10,339	10,203	533	508	21,314	20,728
Change in Unfilled Customer Orders	906	572	764	390	1	(10)	1,671	952
Previously Unavailable	604	288	-	-	-	-	604	288
Resources Temporarily Not Available	(1,032)	(604)	-	-	-	-	(1,032)	(604)
Transfers	(166)	(61)	-	-	(6)	-	(172)	(61)
Total Budgetary Resources	20,822	20,925	12,641	12,038	1,074	1,280	34,537	34,243
STATUS OF BUDGETARY RESOURCES:								
Obligations Incurred								
Direct								
Category A	-	-	-	-	230	206	230	206
Category B	3,808	1,394	-	-	55	308	3,863	1,702
Reimbursable								
Category A	-	10,150	567	515	554	533	1,121	11,198
Category B	11,078	91	10,324	10,225	-	-	21,402	10,316
Unobligated Balance - Available	5,053	8,790	1,736	1,293	99	57	6,888	10,140
Unobligated Balance - Not Available	883	500	14	5	136	176	1,033	681
Total Status of Budgetary Resources	20,822	20,925	12,641	12,038	1,074	1,280	34,537	34,243
CHANGE IN OBLIGATED BALANCE:								
Obligated Balance, Net - Beginning Balance								
Unpaid Obligations, Oct 1	5,167	3,807	4,331	3,786	254	197	9,752	7,790
Less: Uncollected Customer Payments, Oct 1	(3,361)	(2,707)	(4,657)	(4,323)	(13)	(14)	(8,031)	(7,044)
Obligations Incurred	14,886	11,635	10,891	10,740	839	1,047	26,616	23,422
Less: Gross Outlays	(11,232)	(10,183)	(10,049)	(10,008)	(837)	(977)	(22,118)	(21,168)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(240)	(92)	(240)	(187)	(20)	(13)	(500)	(292)
Change in Uncollected Customer Payments (Increase)/Decrease	(904)	(654)	(871)	(334)	3	1	(1,772)	(987)
Obligated Balance, Net - End of Period:								
Unpaid Obligations	8,581	5,167	4,933	4,331	236	254	13,750	9,752
Less: Uncollected Customer Payments	(4,265)	(3,361)	(5,528)	(4,657)	(10)	(13)	(9,803)	(8,031)
NET OUTLAYS:								
Gross Outlays	11,232	10,183	10,049	10,008	837	977	22,118	21,168
Less: Offsetting Collections	(10,444)	(9,935)	(10,232)	(10,259)	(537)	(499)	(21,213)	(20,693)
Less: Offsetting Receipts	-	-	-	-	(43)	(155)	(43)	(155)
Net Outlays	\$ 788	\$ 248	\$ (183)	\$ (251)	\$ 257	\$ 323	\$ 862	\$ 320

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Years Ended September 30, 2010 and 2009

GSA was created by the U.S. Federal Property and Administrative Services Act of 1949, as amended. Congress enacted this legislation to provide for the federal government an economic and efficient system for the procurement and operation of buildings, procurement and distribution of general supplies, acquisition and management of a motor vehicle fleet, management of automated data processing resources, and management of telecommunications programs.

The Administrator of General Services, appointed by the President of the United States with the advice and consent of the U.S. Senate, oversees the operations of GSA. GSA carries out its responsibilities through the operation of several appropriated and revolving funds.

1. SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

For its principal financial statements, GSA uses consolidating and combining formats to display its two largest components: the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF). All other funds have been combined under Other Funds.

The FBF is the primary fund used to record activities of the Public Buildings Service (PBS). The ASF is the primary fund used to record activities of the Federal Acquisition Service (FAS).

GSA's accompanying financial statements include the accounts of all funds which have been established and maintained to account for resources under the control of GSA management. The entities included in the

Other Funds category are described below, together with a discussion of the different fund types.

Revolving Funds are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by Congress. The Revolving Funds in the Other Funds category consist of the following:

- Federal Citizen Services Fund (FCSF)
- Working Capital Fund (WCF)

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. GSA manages 16 General Fund accounts of which four are funded by current year appropriations, two by no-year appropriations, three by multi-year appropriations, two cannot incur new obligations, and five budget clearing accounts that temporarily hold collections until a more appropriate fund can be determined. The General Funds included in the Other Funds category are as follows:

- Allowances and Office Staff for Former Presidents
- Budget Clearing Account – Broker Rebates
- Budget Clearing Account – Proceeds of Sales, Personal Property
- Budget Clearing Account – Real Property
- Budget Clearing Account – Suspense
- Budget Clearing Account - Undistributed Intragovernmental Payments
- Energy-Efficient Federal Motor Vehicle Fleet Procurement – Recovery Act
- Excess and Surplus Real and Related Personal Property Holding Account
- Expenses, Electronic Government Fund
- Expenses, Presidential Transition

- Government-Wide Policy – Recovery Act
- Office of Inspector General (OIG)
- Office of Inspector General – Recovery Act
- Operating Expenses, GSA
- Operating Expenses, Government-Wide Policy
- Real Property Relocation

Special Funds are accounts established for receipts earmarked by law for a specific purpose, but are not generated by a cycle of operations for which there is continuing authority to reuse such receipts. In accordance with Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, these Special Funds are classified as earmarked funds. Although immaterial, earmarked fund balances are displayed in Note 2-B. GSA uses Special Fund receipts to pay certain costs associated with the disposal of surplus real property, for funding of the Transportation Audits program, and to fund the Acquisition Workforce Training program. GSA's Special Funds consist of the following:

- Expenses, Disposal of Real and Related Personal Property
- Expenses, Transportation Audits
- Expenses, Acquisition Workforce Training Fund
- Operating Expenses, Disposal of Real and Related Personal Property
- Other Receipts, Surplus Real and Related Personal Property
- Receipts of Rent, Leases and Lease Payments for Government-Owned Real Property
- Receipts, Transportation Audits
- Receipts, Acquisition Workforce Training Fund
- Transfer of Surplus Real and Related Personal Property

Miscellaneous Receipt and Deposit Fund accounts are considered non-entity funds since GSA management does not exercise control over how the monies in these accounts can be used. Miscellaneous Receipt Fund accounts hold receipts and accounts receivable resulting from miscellaneous activities of GSA where, by law, such monies may not be deposited

into funds under GSA management control. The U.S. Department of the Treasury (U.S. Treasury) automatically transfers all cash balances in these receipt accounts to general funds of the U.S. Treasury at the end of each fiscal year. Deposit Fund accounts hold monies outside the budget. Accordingly, their transactions do not affect budget surplus or deficit. These accounts include (1) deposits received for which GSA is acting as an agent or custodian, (2) unidentified remittances, (3) monies withheld from payments for goods and services received and (4) monies whose distribution awaits a legal determination or investigation. The receipt and deposit funds in the Other Funds category consist of the following:

- Advances Without Orders from Non-Federal Sources
- Employees' Payroll Allotment Account, U.S. Savings Bonds
- Fines, Penalties, and Forfeitures, Not Otherwise Classified
- Forfeitures of Unclaimed Money and Property
- General Fund Proprietary Interest, Not Otherwise Classified
- General Fund Proprietary Receipts, Not Otherwise Classified, All Other
- Proceeds from Sale of Surplus Property
- Reserve for Purchase Contract Projects
- Small Escrow Amounts
- Special and Trust Fund Proprietary Receipts Returned to the General Fund of the U.S. Treasury
- Unconditional Gifts of Real, Personal or Other Property
- Withheld State and Local Taxes

In the FBF, Electronic Government Fund, Allowances and Office Staff for Former Presidents Fund, and Real Property Relocation Fund, GSA has delegated certain program and financial operations of a portion of these funds to other federal agencies to execute on GSA's behalf. Unique sub-accounts, also known as allocation accounts (child), of GSA funds (parent) are created in the U.S. Treasury to provide for the reporting of obligations and outlays incurred by such other agencies.

Generally, all child allocation account financial activity is reportable in combination with the results of the parent fund, from which the underlying legislative authority, appropriations and budget apportionments are derived. GSA has allocation accounts in this regard with the following federal entities: the Departments of Treasury, Defense, Commerce, Homeland Security, and Interior; the Office of Personnel Management (OPM); and the Small Business Administration.

B. Basis of Accounting

The principal financial statements are prepared from the books and records of GSA, in accordance with generally accepted accounting principles (GAAP) as promulgated by FASAB, and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, in all material respects. FASAB SFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Federal Accounting Standards Board*, established the hierarchy of GAAP for federal financial statements. The Consolidating Statements of Net Cost present the operating results of the FBE, ASF and Other Funds, as well as GSA Consolidated operating results as a whole. The Consolidating Balance Sheets present the financial position of GSA using a format segregating intragovernmental balances. The Consolidating Statements of Changes in Net Position display the changes in equity accounts. The Combining Statements of Budgetary Resources (CSBR) present the sources, status and uses of GSA budgetary resources.

GSA reconciles all intragovernmental fiduciary transaction activity, and works with agency partners to reduce significant or material differences reported by other agencies in conformance with Treasury intragovernmental reporting guidelines and requirements of OMB Circular A-136.

Certain prior-year balances have been reclassified to conform to the current year presentation.

On the Consolidating Statements of Net Cost, Consolidating Balance Sheets and Consolidating Statements of Changes in Net Position, all significant intra-agency balances and transactions have been

eliminated in consolidation. No such eliminations have been made on the CSBR. Certain amounts of expenses eliminated on the Consolidating Statements of Net Cost are imputed costs for which the matching resource is not revenue on this statement, but imputed resources provided by others, displayed on the Consolidating Statements of Changes in Net Position. Accordingly, on the Consolidating Statements of Net Cost the revenue and expense eliminations do not match. The Consolidating Statements of Changes in Net Position display the offsetting balances between these categories.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Operating expenses and related accounts payable accruals and estimates are recorded in the period goods or services are received.

C. Revenue Recognition and Appropriations Used

Substantially all revenues reported by GSA funds on the Consolidating Statements of Net Cost are generated from intragovernmental sales of goods and services. GSA earns 97 percent of revenues from other federal customers. Expenses are primarily incurred with non-federal entities supplying the underlying goods and services being provided to GSA federal customers, with only four percent of operating expenses resulting from purchases from federal agencies. Each fund has established rate-setting processes governed by the laws authorizing its activities. In most cases, the rates charged are intended to cover the full cost that GSA funds will pay to provide such goods and services and to provide capital maintenance. In accordance with the governing laws, rates are generally not designed to recover imputed costs not borne by GSA, but covered by other funds or entities of the U.S. government, such as for post-employment and other inter-entity costs. Revenues from non-federal entities make up an immaterial portion of GSA total sales. Accordingly,

where not otherwise governed by law, unique rates for non-federal customers have generally not been established.

Generally, Revolving Fund and reimbursable General Fund revenue is recognized when goods have been delivered or services rendered.

- In the FBF, rent revenues are earned based on occupancy agreements with customers, as space and services are provided. Generally, agencies housed in government-owned buildings are billed based upon commercial rates for comparable space. Agencies housed in buildings leased by GSA are generally billed at rates to recover the cost of that space. In some instances, special rates are arranged in accordance with congressional guidance or other authorized purposes. Most agencies using funding from Trust Funds have rent rates set to recover full cost. Revenue under nonrecurring reimbursable building repairs and alterations (R&A) projects is recognized under the percentage-of-completion method.
- In the ASF, General Supplies and Services revenues are recognized when goods are provided to customers. In the Travel, Motor Vehicle, and Card Services portfolio, vehicle acquisition revenues are recognized when goods are provided. Vehicle leasing revenues are recognized based on rental arrangements over the period vehicles are dispatched. Assisted Acquisition Services revenues are recognized when goods are provided, and fee revenues in the GSA Schedules programs are earned based on estimated and actual usage of GSA contracting vehicles by other agencies. The Schedules programs generated \$294 million in fees, constituting three percent of ASF revenues in FY 2010, and \$284 million, three percent of ASF revenues, in FY 2009. Integrated Technology Services revenues are earned when goods or services are provided or as reimbursable project costs are incurred. Telecommunications

service revenues are generally recognized based on customer usage or on fixed line rates.

- In the WCF, revenues are generally recognized when general management and administrative services are provided to the service components of GSA and to external customers. Such WCF revenues are earned in accordance with agreements that recover the direct cost and an allocation of indirect costs from the components of GSA receiving those services.

Non-Exchange Revenues are recognized on an accrual basis on the Consolidating Statements of Changes in Net Position for sales of surplus real property, reimbursements due from the audit of payments to transportation carriers, and other miscellaneous items resulting from GSA operations where ultimate collections must be deposited in miscellaneous receipt accounts of the U.S. Treasury. Non-Exchange Revenues are reported net of associated bad debt expense on uncollectible accounts.

Appropriations for General Fund and Special Fund activities are recorded as a financing source on the Consolidating Statements of Changes in Net Position when expended. Unexpended appropriations are reported as an element of Net Position on the Consolidating Balance Sheets.

D. Fund Balance with Treasury

This total represents all unexpended balances for GSA accounts with the U.S. Treasury. Amounts in Fund Balance with Treasury are based on the balances reported on the books of the U.S. Treasury, as the official record of the federal government. Adjustments are only made to those amounts when significant differences are identified.

GSA acts as a disposal agent for surplus federal real and personal property. In some cases, public law entitles the owning agency to the sales proceeds, net of disposal expenses incurred by GSA. Proceeds from the disposal of equipment are generally retained by GSA to replace equipment. Under GSA legislative authorities, the gross proceeds from some sales are deposited in

GSA Special Fund receipt accounts and recorded as Non-Exchange Revenues in the Consolidating Statements of Changes in Net Position. A portion of these proceeds is subsequently transferred to a Special Fund to finance expenses incurred in disposing of surplus property. The remainder is periodically accumulated and transferred, by law, to the Land and Water Conservation Fund administered by the U.S. Department of the Interior (DOI).

E. Inventories

Inventories held for sale to other federal agencies consist primarily of ASF inventories valued at historical cost, generally determined on a moving average basis. The recorded values are adjusted for the results of physical inventories taken periodically in accordance with a cyclical counting plan. In the ASF, an inconsequential amount of the balances in inventories held for sale are excess inventories. Excess inventories are defined as those exceeding the economic retention limit (i.e., the number of units of stock which may be held in inventory without incurring excessive carrying costs). Excess inventories are generally transferred to another federal agency, sold, or donated to state or local governments.

In the FBF, inventory balances consist of operating supplies and materials that will be consumed in operations. In accordance with FASAB SFFAS No. 3, *Accounting for Inventory and Related Property*, as balances of these supplies are immaterial and in the hands of end users for use in normal operations, they are accounted for using the purchases method. Amounts on hand at the end of the reporting period are valued at market for presentation on the Consolidating Balance Sheets.

F. Property and Equipment (See Note 5)

Generally, property and equipment purchases and additions of \$10,000 or more, and having a useful life of two or more years, are capitalized and valued at cost. Property and equipment transferred to GSA from other federal agencies on the date GSA was established is stated at the transfer value, which approximates historical cost. Subsequent thereto, equipment

transferred to GSA is stated at net book value, and surplus real and related personal property transferred to GSA is stated at the lower of net book value or appraised value.

Expenditures for major additions, replacements and alterations to real property of \$50,000 or more are capitalized. Normal repair and maintenance costs are expensed as incurred. The cost of R&A and leasehold improvements performed by GSA, but financed by other agencies, is not capitalized in GSA financial statements as such amounts are transferred to the other agencies upon completion of the project. The majority of all land, buildings and leasehold improvements are leased to other federal agencies under short-term cancellable agreements.

Depreciation and amortization of property and equipment are calculated on a straight-line basis over their initial or remaining useful lives. Leasehold Improvements are amortized over the lesser of their useful lives, generally five years, or the unexpired lease term. Buildings capitalized by the FBF at its inception in 1974 were assigned remaining useful lives of 30 years. It is GSA policy to capitalize construction costs in the Land and Buildings accounts upon project completion. Buildings acquired under capital lease agreements are also depreciated over 30 years. Major and minor building renovation projects carry estimated useful lives of 20 years and 10 years, respectively.

Telecommunications and Automated Data Processing (ADP) Equipment are used in operations to perform services for other federal agencies for which billings are rendered. Most of the assets comprising Other Equipment are used internally by GSA. Telecommunications and ADP Equipment, and Other Equipment categories are depreciated over periods generally ranging from three to 10 years.

Motor Vehicles are generally depreciated over four to 12 years.

In accordance with FASAB SFFAS No. 10, *Accounting for Internal Use Software*, capitalization of software development costs incurred for systems having a useful life of two years or more is required. With

implementation of this standard, GSA adopted minimum dollar thresholds per system that would be required before capitalization would be warranted. For the FBF, this minimum threshold is \$1 million. For all other funds, it is \$250,000. Once completed, software applications are depreciated over an estimated useful life determined on a case-by-case basis, ranging from three to 10 years. Capitalized software is reported as an element of Other Equipment on the Consolidating Balance Sheets.

G. Annual, Sick and Other Types of Leave

Annual leave liability is accrued as it is earned and the accrual is reduced as leave is taken. Each year the balance in the accrued annual leave account is adjusted to reflect current pay rates.

Sick leave and other types of nonvested leave are expensed as taken.

2. FUND BALANCE WITH TREASURY

A. Reconciliation to U.S. Treasury

There were only negligible differences between amounts reported by GSA and those reported to the U.S. Treasury as of September 30, 2010 and 2009.

B. Balances by Fund Type

The most significant amounts for GSA in Fund Balance with Treasury are the FBF and ASF revolving funds. Within the Other Funds category, Special Receipt, and Special and Trust Expenditure Funds are classified as earmarked funds in accordance with FASAB SFFAS No. 27. The fund balances in the Other Funds category contains amounts in the following fund types (dollars in millions):

	2010	2009
Revolving Funds	\$ 283	\$ 256
Appropriated and General Funds	139	175
Clearing Funds	30	30
Special Receipt Funds	127	120
Special and Trust Expenditure Funds	39	43
Deposit Funds	39	54
Total Other Funds	<u>\$ 657</u>	<u>\$ 678</u>

C. Relationship to the Budget

In accordance with FASAB SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, the following information is provided to further identify amounts in Fund Balance with Treasury as of September 30, 2010 and 2009, against which obligations have been made, and for unobligated balances, to identify amounts available for future expenditures and those only available to liquidate prior obligations. In the FBF, amounts of Fund Balance with Treasury shown below as Unobligated Balance – Unavailable include a combination of the amounts reported on the CSBR as Resources Temporarily Unavailable and Unobligated Balance – Not Available. Also, in two instances, the portion of Fund Balance with Treasury presented below as unobligated balances will not equal related amounts reported on the CSBR. In the FBF, the CSBR unobligated balances include resources associated with borrowing authority for which actual funds have not yet been realized (see Note 6). In the Other Funds group, the schedule below includes amounts displayed as unavailable unobligated balances for the Fund Balance with Treasury held in Special Receipt, Clearing, and Deposit Funds, shown above in Note 2-B, which are not reportable for purposes of the CSBR. The following schedule presents elements of the Fund Balance with Treasury (dollars in millions):

	Obligated Balance, Net	Unobligated Balance		Total
		Available	Unavailable	
2010				
FBF	\$ 4,315	\$ 5,024	\$ 1,915	\$ 11,254
ASF	(595)	1,736	14	1,155
Others	226	99	332	657
Total	\$ 3,946	\$ 6,859	\$ 2,261	\$ 13,066
2009				
FBF	\$ 1,800	\$ 8,760	\$ 1,104	\$ 11,664
ASF	(326)	1,293	5	972
Others	241	57	380	678
Total	\$ 1,715	\$ 10,110	\$ 1,489	\$ 13,314

D. Availability of Funds

In GSA's earmarked Special Receipt Funds, included in balances of Fund Balance with Treasury, are certain amounts that may be transferred to either the U.S. Treasury, or the Land and Water Conservation Fund (see Note 1-D). These amounts, related to the Transportation Audits program, Acquisition Workforce Training program and surplus real property disposals, are subject to transfer upon GSA's determination of the internal working capital needs of these programs. The Fund Balance with Treasury in these funds totaled \$127 million and \$120 million at September 30, 2010 and 2009, respectively, of which \$42 million and \$43 million, respectively, were recorded as liabilities in the Consolidating Balance Sheets.

In FYs 2010 and 2009, \$0.3 million and \$0.7 million, respectively, of unused funds from expired appropriations were returned to the U.S. Treasury as of September 30. Such balances are excluded from the amount reported as Fund Balance with Treasury in accordance with U.S. Treasury guidelines.

A portion of Fund Balance with Treasury also includes amounts where authority to incur new obligations has expired, but are available to liquidate residual obligations that originated when the funds were available. Such expired balances totaled \$29 million and \$49 million at September 30, 2010 and 2009, respectively.

The FBF has balances that are temporarily not available in accordance with annual appropriation acts that limit the amount of reimbursable resources that are available for spending each year. Such amounts totaled \$1,032 million and \$604 million at September 30, 2010 and 2009, respectively, and will not be available for expenditure except as authorized in future appropriation acts.

Under ASF legislative authorities, GSA is allowed to retain earnings to ensure the fund has sufficient resources to support operations in association with a cost and capital planning process as approved by the Administrator of GSA. At the end of FY 2010 and 2009, management determined that all earnings will be retained in accordance with this process.

3. NON-ENTITY ASSETS

As of September 30, 2010 and 2009, certain amounts reported on the Consolidating Balance Sheets are elements of Budget Clearing, Deposit, and Miscellaneous Receipt Funds, which are not available to management for use in ongoing operations and are classified as Non-entity assets (see Note 1-A). The only substantial balances of non-entity assets were Fund Balance with Treasury, which totaled \$69 million and \$84 million, respectively.

4. ACCOUNTS AND NOTES RECEIVABLE, NET

Substantially, all accounts receivable are from other federal agencies. Unbilled accounts receivable result from the delivery of goods, or performance of services for which bills have not yet been rendered. Allowances for doubtful accounts are recorded using aging methodologies based on analysis of historical collections and write-offs.

In addition to accounts receivable balances displayed below, GSA has an inconsequential balance of notes receivable, net of allowances for doubtful accounts. The most significant of these notes receivable balances is an \$8M note in the Federal Buildings Fund that has been deemed uncollectible. In accordance with FASAB SFFAS No. 1, GSA does not recognize interest receivable or allowance related to notes deemed uncollectible. As of September 30, 2010 and 2009, accumulated interest on this note totaled \$74 million and \$65 million, respectively.

A summary of Accounts Receivable is as follows (dollars in millions):

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Accounts Receivable - Billed	\$ 166	\$ 132	\$ 112	\$ 100	\$ 25	\$ 36	\$ -	\$ -	\$ 303	\$ 268
Accounts Receivable - Unbilled	371	369	1,257	1,156	3	7	22	45	1,609	1,487
Allowance for Doubtful Accounts	(38)	(14)	(10)	(3)	-	(5)	-	-	(48)	(22)
Total Accounts Receivable, Net	\$ 499	\$ 487	\$ 1,359	\$ 1,253	\$ 28	\$ 38	\$ 22	\$ 45	\$ 1,864	\$ 1,733

5. PROPERTY AND EQUIPMENT, NET

A. Summary of Balances

Balances in GSA Property and Equipment accounts subject to depreciation as of September 30, 2010 and 2009, are summarized below (dollars in millions):

	2010			2009		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Buildings	\$ 32,509	\$ 16,599	\$ 15,910	\$ 31,019	\$ 15,599	\$ 15,420
Leasehold Improvements	286	222	64	289	219	70
Telecom and ADP Equipment	91	91	-	93	91	2
Motor Vehicles	4,654	1,550	3,104	4,466	1,416	3,050
Other Equipment	475	344	131	431	304	127
Total	\$ 38,015	\$ 18,806	\$ 19,209	\$ 36,298	\$ 17,629	\$ 18,669

B. Cleanup Costs

In the FBF, certain properties contain environmental hazards that will ultimately need to be removed and/or require containment mechanisms to prevent health risks to the public. Cleanup of such hazards is governed by various federal and state laws. The laws most applicable to GSA are the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) of 1980, the Clean Air Act, and the Resource Conservation and Recovery Act.

In accordance with FASAB SFFAS No. 5 and 6, *Accounting for Liabilities of the Federal Government* and *Accounting for Property, Plant, and Equipment*, respectively, and interpretive guidance in Federal Financial Accounting and Auditing Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, issued by the FASAB Accounting and Auditing Policy Committee, if an agency is required by law to clean up such hazard, the estimated amount of cleanup cost must be reported in the financial statements.

Accordingly, GSA recognized liabilities totaling \$99 million and \$103 million for Environmental and Disposals costs in FYs 2010 and 2009, respectively, for properties currently in GSA's property inventory. In almost all cases, liabilities are associated with cleanup efforts required by CERCLA. In instances where no reasonable estimate of the cost to clean up a particular site could be made, GSA recognized the estimated costs for related environmental studies as is prescribed in the guidance noted above. Management has estimated an additional \$26 million and \$19 million as of September 30, 2010, and 2009, respectively, of potential cleanup costs where it is only possible that GSA could incur additional costs. In some instances, GSA has been named as a party in certain environmental cases where the subject property is no longer in the GSA or federal property inventory. GSA's liability for such cases is further discussed in Note 10.

C. Heritage Assets

The average age of GSA buildings is over 47 years old, and therefore, many buildings have historical, cultural and/or architectural significance. While GSA uses these buildings to meet the office space and other needs of the federal government, maintaining and preserving these historical elements is a significant priority. In accordance with FASAB SFFAS No. 29, *Heritage Assets and Stewardship Land*, these buildings meet the definition of Multi-use Heritage Assets, and are reportable within Property and Equipment on the Consolidating Balance Sheets.

GSA defines its Historic Buildings as those buildings that are either listed on the National Register of Historic Places, have formally been determined eligible, or appear to meet eligibility criteria to be listed. GSA has 298 buildings on the National Register, down from 301 at the end of FY 2009, of which 101 are designated as National Historical Landmarks. An additional 183 buildings are potentially eligible for listing on the National Register, but have not gone through the formal determination process. Under the National Historic Preservation Act, GSA is required to give these buildings special consideration, including first preference for federal use and rehabilitation in accordance with standards established by the DOI.

6. INTRAGOVERNMENTAL DEBT

A. Lease Purchase Debt

Starting in FY 1991, GSA entered into several agreements to fund the purchase of land and construction of buildings under the FBF lease purchase borrowing authority. Under these agreements, the FBF borrows monies (as advance payments) through the Federal Financing Bank (FFB) or executes lease-to-own contracts to finance the lease purchases. Mortgage loans and construction advances held by the FFB are due at various dates from June 28, 2021, through August 1, 2035, at interest rates ranging from 2.578 percent to 8.561 percent. The program authorizes total expenditures of \$1,945 million for 11 projects. In FYs 2010 and 2009, the FFB made advance payments on behalf of GSA totaling \$7 million and \$5 million,

respectively. As of September 30, 2010 and 2009, \$30 million and \$37 million, respectively, of borrowing authority under the lease purchase program remained available for additional advance payments.

B. Pennsylvania Avenue Debt

The former Pennsylvania Avenue Development Corporation (PADC) originally received authority to borrow from the FFB to finance construction of the Ronald Reagan Building (RRB) in Washington, D.C., with a project budget of \$738 million. Effective March 31, 1996, the PADC was dissolved, with portions of its functions, assets and liabilities being transferred to GSA, including the RRB.

Subsequent legislation consolidated GSA's portion of these assets and liabilities into the FBF, in which the cost and associated debt for the RRB is now recorded. Mortgage loans for the RRB are due November 2, 2026, at interest rates ranging from 4.004 percent to 8.323 percent.

No additional amounts are anticipated to be borrowed under this authority.

C. Schedules of Debt Arrangements

GSA's outstanding debt arrangements in the FBF at September 30, 2010, and 2009, were as follows (dollars in millions):

	2010	2009
Lease Purchase Debt	\$ 1,344	\$ 1,388
Pennsylvania Avenue Debt	629	649
Total GSA Debt	<u>\$ 1,973</u>	<u>\$ 2,037</u>

Resources to retire debt are obtained from annual revenues generated by the FBF. Aggregate debt maturities at the end of FY 2010 are as follows (dollars in millions):

AGGREGATE DEBT MATURITIES

FISCAL YEAR	LEASE		
	PURCHASE DEBT	PA AVE DEBT	TOTAL
2011	\$ 54	\$ 21	\$ 75
2012	58	23	81
2013	62	25	87
2014	66	27	93
2015	70	28	98
2016 and thereafter	1,034	505	1,539
Total future aggregate debt maturities	<u>\$ 1,344</u>	<u>\$ 629</u>	<u>\$ 1,973</u>

7. WORKERS' COMPENSATION BENEFITS

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from the federal agencies employing the claimants. DOL provides the actuarial liability for claims outstanding at the end of each fiscal year. This liability includes the estimated future costs of death benefits, workers' compensation, and medical and miscellaneous costs for approved compensation cases. The present value of these estimates at the end of FY 2010 was calculated by DOL using a discount rate of 3.653 percent for FY 2010, and 4.300 percent for FY 2011 and thereafter. At the end of FY 2009, the discount rate used was 4.223 percent for FY 2009, and 4.715 percent for FY 2010 and thereafter. At September 30, 2010 and 2009, GSA's actuarial liability totaled \$135 million and \$136 million, respectively.

8. LEASING ARRANGEMENTS

As of September 30, 2010, GSA was committed to various non-cancellable operating leases primarily covering administrative office space and storage facilities maintained by the FBF. Many of these leases contain escalation clauses tied to inflationary and tax increases, and renewal options. GSA also uses a small volume of operating leases of vehicles in the ASF to fill demand when sufficient owned vehicles are not available. The following are schedules of future minimum rental payments required under leases that have initial or remaining non-cancellable terms in excess of one year, and under capital leases together with the present value of the future minimum lease payments (dollars in millions):

OPERATING LEASES	
FISCAL YEAR	TOTAL
2011	\$ 4,529
2012	3,949
2013	3,365
2014	2,843
2015	2,373
2016 and thereafter	9,086
Total future minimum lease payments	<u>\$ 26,145</u>

CAPITAL LEASES	
FISCAL YEAR	FBF
2011	\$ 32
2012	32
2013	31
2014	31
2015	31
2016 and thereafter	177
Total future minimum lease payments	334
Less: Amounts representing-	
Interest	99
Executory Costs	2
Total obligations under capital leases	<u>\$ 233</u>

Substantially all leased space maintained by the FBF is sublet to other federal agencies at rent charges to recover GSA's cost of that space. The majority of agreements covering the sublease arrangements allow customer agencies to terminate the sublease at any time. In those cases GSA believes the subleases will continue without interruption. In some instances agreements with customers include non-cancellation clauses. The following is a schedule of future minimum rentals due GSA under such non-cancellable agreements (dollars in millions):

OPERATING LEASE RENTALS	
FISCAL YEAR	TOTAL
2011	\$ 506
2012	472
2013	414
2014	374
2015	349
2016 and thereafter	2,121
Total future minimum lease rentals	<u>\$ 4,236</u>

Rental income under subleasing agreements and related reimbursable arrangements approximated \$6 billion and \$5.8 billion for the FYs ended September 30, 2010 and 2009, respectively. Rent expense under all operating leases, including short-term non-cancellable leases, was approximately \$5.3 billion and \$5 billion in FYs 2010 and 2009, respectively. The Consolidating Balance Sheets as of September 30, 2010 and 2009, include capital lease assets of \$363 million in both fiscal years, for buildings. Aggregate accumulated amortization on such structures totaled \$176 million and \$163 million in those years, respectively. For substantially all of its leased property, GSA expects that in the normal course of business such leases will be either renewed or replaced in accordance with the needs of its customer agencies.

9. OTHER LIABILITIES

As of September 30, 2010 and 2009, the components of amounts reported on the Consolidating Balance Sheets as Other Intragovernmental Liabilities and Other Liabilities, are substantially all long-term in nature, with the exception of amounts shown below as Federal Benefit Withholdings and Salaries and Benefits Payable, which are current liabilities. Within Other Liabilities, Unamortized Rent Abatements represents amounts related to periods of free rent, rent holidays, rent concessions and step rent in operating leases for buildings, which are amortized over lease terms to achieve cost recognition on a straight-line basis. Also, in Other Liabilities, Installment Purchase Liabilities are associated with energy improvement projects in buildings, where legislative authorities provide for financing of project costs when savings in energy usage costs exceed project costs. Other Intragovernmental Liabilities and Other Liabilities consisted of the following (dollars in millions):

	FBF		ASF		OTHER FUNDS		GSA CONSOLIDATED TOTALS	
	2010	2009	2010	2009	2010	2009	2010	2009
Other Intragovernmental Liabilities:								
Payments Due to the Judgment Fund (Note 10)	\$ 360	\$ 335	\$ -	\$ -	\$ -	\$ -	\$ 360	\$ 335
Workers' Compensation Due to DOL	21	21	7	8	3	3	31	32
Federal Benefit Withholdings	6	5	3	3	2	2	11	10
Deposits in Clearing Funds	-	-	-	-	30	31	30	31
Earnings Payable to Treasury	-	-	-	-	22	31	22	31
Total	\$ 387	\$ 361	\$ 10	\$ 11	\$ 57	\$ 67	\$ 454	\$ 439
Other Liabilities:								
Unamortized Rent Abatements	\$ 222	\$ 186	\$ -	\$ -	\$ -	\$ -	\$ 222	\$ 186
Installment Purchase Liabilities	174	167	-	-	-	-	174	167
Salaries and Benefits Payable	36	31	20	17	15	14	71	62
Deferred Revenues/Advances from the Public	2	2	1	1	28	13	31	16
Contingencies	36	17	-	-	-	-	36	17
Pensions for Former Presidents	-	-	-	-	8	8	8	8
Total	\$ 470	\$ 403	\$ 21	\$ 18	\$ 51	\$ 35	\$ 542	\$ 456

10. COMMITMENTS AND CONTINGENCIES

A. Commitments and Undelivered Orders

In addition to future lease commitments discussed in Note 8, GSA is committed under obligations for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all GSA activities at September 30, 2010 and 2009, were as follows (dollars in millions):

	2010	2009
FBF	\$ 7,235	\$ 3,850
ASF	3,742	3,243
Other Funds	185	181
Total Undelivered Orders	<u>\$ 11,162</u>	<u>\$ 7,274</u>

In fiscal year 2007, GSA awarded eight contracts for world-wide telecommunications and network services (Networx Universal and Networx Enterprise) to replace the previous FTS2001 contracts, and to provide voice, wireless, IP, satellite, and related telecommunications services for the federal community. These contracts are primarily funded through the ASF Integrated Technology Services portfolio. The contracts provide minimum revenue guarantees totaling \$575 million, of which \$258 million and \$535 million remained outstanding as of September 30, 2010, and 2009, respectively. Given the value of services GSA estimates it will procure over the 10 year life of these contracts, management considers the risk of not meeting the minimum revenue guarantees to be remote.

B. Contingencies

GSA is a party in various administrative proceedings, legal actions, environmental suits and claims brought by or against it. In the opinion of GSA management and legal counsel, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or results of operations of GSA. Based on the nature of each claim, resources available to liquidate these liabilities may be from GSA

funds or, in some instances, are covered by the U.S. Treasury's Judgment Fund, as discussed below.

- As of September 30, 2010 and 2009, GSA recorded liabilities in total of \$34 million and \$16 million, respectively, for pending and threatened legal matters for which, in the opinion of GSA management and legal counsel, GSA funds will probably incur losses.

In addition, GSA has contingencies ranging from \$29 million to \$75 million as of September 30, 2010, where it is reasonably possible, but not probable, that GSA funds will incur some cost. Accordingly, no balances have been recorded in the financial statements for these contingencies. At September 30, 2009 reasonably possible claims totaled \$97 million.

In most cases, legal matters which directly involve GSA relate to contractual arrangements GSA has entered into either for property and services it has obtained or procured on behalf of other federal agencies. The costs of administering, litigating and resolving these actions are generally borne by GSA unless it can recover the cost from another federal agency. Certain legal matters in which GSA may be named party are administered and, in some instances, litigated by other federal agencies. Amounts to be paid under any decision, settlement or award pertaining thereto are sometimes funded by those agencies.

- In many cases, tort and environmental claims are administered and resolved by the U.S. Department of Justice (DOJ), and any amounts necessary for resolution are obtained from a special Judgment Fund maintained by the U.S. Treasury. In accordance with the FASAB's Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*, costs incurred by the federal government are to be reported by the agency responsible for incurring the liability, or to which liability has been assigned, regardless of the ultimate source of funding. In accordance

with this interpretation, GSA reported \$107 million and \$5 million in FYs 2010 and 2009, respectively, of Environmental and Disposals and Other Liabilities for contingencies which will require funding exclusively through the Judgment Fund. Of those amounts, approximately \$105 million and \$4 million result from several environmental cases outstanding at the end of FYs 2010 and 2009, respectively, where GSA has been named as a potentially responsible party. Environmental costs are estimated in accordance with the FASAB Accounting and Auditing Policy Committee's Federal Financial Accounting and Auditing Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

Additional contingencies subject to ultimate funding from the Judgment Fund where the risk of loss is reasonably possible, but not probable, ranged from \$210 million to \$307 million at September 30, 2010 and ranged from \$240 million to \$3.6 billion at September 30, 2009.

The recognition of claims to be funded through the Judgment Fund on GSA Consolidating Statements of Net Cost and Consolidating Balance Sheets is, in effect, recognition of these liabilities against the federal government as a whole, and should not be interpreted as claims against the assets or resources of any GSA fund, nor will any future resources of GSA be required to liquidate any resulting losses. Further, for most environmental claims, GSA has no managerial responsibility other than as custodian and successor on claims made against former federal entities, particularly former World War II defense related activities.

Amounts paid from the Judgment Fund on behalf of GSA were \$38 million and \$34 million in FYs 2010 and 2009, respectively. Of these amounts, \$25 million and \$27 million, respectively, related to claims filed under the Contract Disputes Act for which payments have been or will be made to reimburse the Judgment

Fund by the GSA funds liable under the contracts in dispute. The balance of claims paid on behalf of GSA does not require reimbursement to the Judgment Fund.

11. UNFUNDED LIABILITIES

As of September 30, 2010 and 2009, budgetary resources were not yet available to fund certain liabilities reported on the Consolidating Balance Sheets. For such liabilities, most are long-term in nature where funding is generally made available in the year payments are due or anticipated. The portion of liabilities reported on the Consolidating Balance Sheets that are not covered by budgetary resources consists of the following (dollars in millions):

	2010	2009
Intragovernmental Debt	\$ 6	\$ 11
Other Intragovernmental Liabilities	443	429
Obligations Under Capital Lease	215	228
Workers' Compensation Actuarial Liabilities	135	136
Environmental and Disposal	204	107
Annual Leave Liability	110	104
Other Liabilities	440	378
Total Liabilities Not Covered By Budgetary Resources	\$ 1,553	\$ 1,393

Certain balances, while also unfunded by definition (as no budgetary resources have been applied), will be liquidated from resources outside of the traditional budgeting process and require no further congressional action to do so. Such balances include: 1) amounts reported in the Consolidating Balance Sheets under the caption Deposit Fund Liability; 2) the portion of amounts included in Other Intragovernmental Liabilities shown as Deposits Held in Suspense and Earnings Payable to Treasury in Note 9; and 3) substantially all amounts included in Other Liabilities shown as Deferred Revenues/Advances From the Public in Note 9.

12. RECONCILIATION TO THE PRESIDENT'S BUDGET

In accordance with FASAB SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, if there are differences between amounts reported in these financial statements versus those reported in the most recent Budget of the United States Government (President's Budget), they must be disclosed. With the President's Budget generally released in February each year, the most current comparable data is the FY 2011 President's Budget, which contains FY 2009 financial statement results. The FY 2012 President's Budget, containing FY 2010 actual results is expected to be released in February 2011 on OMB's Web site. The portion of the President's Budget relating specifically to GSA can be found in the appendix of that report. Balances submitted to the U.S. Treasury constitute the basis for reporting of actual results in the President's Budget.

Differences between the CSBR and the President's Budget can be due to adjustments identified by GSA during the preparation of the CSBR, which occurred after the U.S. Treasury's deadline for reporting of fund balances and budget execution results. Such adjustments to the balances reported to the U.S. Treasury were made on the CSBR to more fully reflect the activity for the fiscal year ended, and for balances as of September 30, 2009.

The basis of the President's Budget and the CSBR is data reported to the U.S. Treasury on the Reports on Budget Execution and Budgetary Resources (SF 133s). However, as the CSBR is being developed, items may be identified that require adjustment to the data originally submitted on the SF 133s, which would create differences between the CSBR and the President's Budget. Generally, such items are identified after the deadlines for reporting to the U.S. Treasury, and reflect reclassifications of balances to report the proper status of obligations or budgetary resources.

For FY 2009, minor differences were due to adjustments recorded in the FBF, based on statistical sampling techniques which were not sufficiently detailed for SF 133 reporting. Additional reconciling differences are caused by the presentation style of the President's Budget, which excludes Budgetary Resources, Obligations Incurred and Unobligated Balances in expired annual funds, as well as offsetting collections, which are required for reporting on the CSBR.

Small rounding differences also exist due to differences in display of the CSBR versus the President's Budget.

The following two schedules highlight the most significant comparable amounts reported in the FY 2009 CSBR and FY 2011 President's Budget (dollars in millions). The first schedule shows the total differences where the CSBR contains balances greater or (less) than amounts reported in the President's Budget by fund. Following this is a second schedule displaying the components of each difference at the combined level.

	FBF		ASF		OTHERS		TOTAL		
	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	DIFFERENCE
Budgetary Resources	\$ 21,529	\$ 21,534	\$ 12,038	\$ 12,038	\$ 1,280	\$ 1,231	\$ 34,847	\$ 34,803	\$ 44
Obligations Incurred	11,635	11,641	10,740	10,740	1,047	1,046	23,422	23,427	(5)
Unobligated Balances	9,894	9,893	1,298	1,298	233	185	11,425	11,376	49
Balance of Obligations	1,806	1,806	(326)	(327)	241	242	1,721	1,721	-
Outlays	248	248	(251)	(251)	323	477	320	474	(154)

	BUDGETARY RESOURCES	OBLIGATIONS INCURRED	UNOBLIGATED BALANCE	OBLIGATED BALANCE	NET OUTLAYS
Combined Statement of Budgetary Resources	\$ 34,847	\$ 23,422	\$ 11,425	\$ 1,721	\$ 320
Expired Funds, Not Reflected in the Budget	(50)	(1)	(49)	-	-
Differences in the FBF due to variances in reporting methods	6	6	-	-	-
Offsetting Receipts Not Reflected in the Budget	-	-	-	-	155
Rounding	-	-	-	-	(1)
Budget of the U.S. Government	\$ 34,803	\$ 23,427	\$ 11,376	\$ 1,721	\$ 474

13. COMBINING STATEMENTS OF BUDGETARY RESOURCES

The CSBR presents GSA budgetary results in accordance with reporting requirements prescribed in OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, which identifies budgetary resources available for spending, the status of those resources, and the relationship between obligated balances and outlays (see Note 12). In consolidated reporting by OMB and the Treasury, for the U.S. government as a whole, substantially all of GSA's program operations and operating results are categorized as general government functions.

Balances reported on the CSBR as Prior Year Recoveries generally reflect the downward adjustment of obligations that originated in prior fiscal years which have been cancelled or reduced in the current fiscal year. These balances may also include the effect of adjustments caused when an obligation is modified to change the applicable program, or budget activity. In managing and controlling spending in GSA funds on a fund-by-fund basis, unique budget control levels (such as programs, budget activities or projects) are established. These levels are based on legislative limitations, OMB apportionment limitations, as well as management-defined allotment control limitations, in order to track and monitor amounts available for spending and obligations incurred against such amounts, as is required under the Antideficiency Act. When an obligation from a prior year is modified to change the budget control level of an obligation, a Prior Year Recovery would be credited to the level that was initially charged, and Obligations Incurred would be charged to the new level. While there may be no net change to total obligations in a particular fund, offsetting balances from the upward and downward adjustments would be reported on the corresponding lines of the CSBR.

14. CONSOLIDATING STATEMENTS OF CHANGES IN NET POSITION

A. Cumulative Results of Operations

Cumulative results of operations for Revolving Funds include the net cost of operations since their inception, reduced by funds returned to the U.S. Treasury, by congressional rescissions, and by transfers to other federal agencies, in addition to balances representing invested capital. Invested capital includes amounts provided to fund certain GSA assets, principally land, buildings, construction in process, and equipment, as well as appropriated capital provided as the corpus of a fund (generally to meet operating working capital needs).

The FBF, ASF, WCF and FCSF have legislative authority to retain portions of their cumulative results for specific purposes. The FBF retains cumulative results to finance future operations and construction, subject to appropriation by Congress. In the ASF, such cumulative results are retained to cover the cost of replacing the motor vehicle fleet and supply inventory as well as to provide financing for major systems acquisitions and improvements, contract conversion costs, major contingencies, and to maintain sufficient working capital. The WCF retains cumulative results to finance future systems improvements and certain operations. The FCSF retains cumulative results to finance future operations, subject to appropriation by Congress.

Cumulative Results of Operations on the Consolidating Balance Sheets include immaterial balances of earmarked funds as defined in FASAB SFFAS No. 27, which totaled \$138 million and \$142 million as of September 30, 2010 and 2009, respectively. As further discussed in Notes 1 and 2, earmarked balances are those reported in GSA Special Funds, within the Other Funds display on the Consolidating Balance Sheets.

B. Unexpended Appropriations

Unexpended Appropriations consist of unobligated balances and undelivered orders, net of unfilled customer orders in funds that receive appropriations.

Undelivered orders are orders placed by GSA with vendors for goods and services that have not been received. Unfilled customer orders are reimbursable orders placed with GSA by other agencies, other GSA funds, or from the public, where GSA has yet to provide the good or service requested. At September 30, 2010 and 2009, balances reported as unexpended appropriations were as follows (dollars in millions):

	FBF	OTHER FUNDS	TOTAL GSA
2010			
Unobligated Balances:			
Available	\$ 408	\$ 43	\$ 451
Unavailable	-	17	17
Undelivered Orders	4,270	59	4,329
Unfilled Customer Orders	-	(3)	(3)
Total Unexpended Appropriations	\$ 4,678	\$ 116	\$ 4,794
2009			
Unobligated Balances:			
Available	\$ 4,316	\$ 31	\$ 4,347
Unavailable	-	36	36
Undelivered Orders	1,332	80	1,412
Unfilled Customer Orders	-	(3)	(3)
Total Unexpended Appropriations	\$ 5,648	\$ 144	\$ 5,792

15. EMPLOYEE BENEFIT PLANS

A. Background

Although GSA funds a portion of pension benefits for its employees under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), and makes the necessary payroll withholdings, GSA is not required to disclose the assets of the systems or the actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. Reporting such amounts is the direct responsibility of OPM. Reporting of health care benefits for retired employees is also the direct responsibility of OPM.

In accordance with FASAB SFFAS No. 5, GSA recognizes the normal cost of pension programs and the normal cost of other post-employment health and life insurance benefits, as defined in that standard, on the Consolidating Statements of Net Cost. While these costs will ultimately be funded out of direct appropriations made to OPM and do not require funding by GSA activities, they are an element of government-wide costs incurred as a result of GSA's operations.

B. Civil Service Retirement System

At the end of FY 2010, 19.5 percent (down from 22.4 percent in FY 2009) of GSA employees were covered by the CSRS, a defined benefit plan. Total GSA (employer) contributions (7.5 percent of base pay for law enforcement employees, and 7.0 percent for all others) to CSRS for all employees totaled \$19 million and \$20 million in FYs 2010 and 2009, respectively.

C. Federal Employees Retirement System

On January 1, 1987, the FERS, a mixed system of defined benefit and defined contribution plans, went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, were automatically covered by FERS and Social Security while employees hired before January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. As of September 30, 2010, 79.8 percent (up from 77.0 percent in FY 2009) of GSA employees were covered under FERS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the federal government's Thrift Savings Plan (TSP) for each employee. All employees can invest up to \$16,500 in their TSP account each calendar year. In addition, for FERS employees, GSA automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. Total contributions made on behalf of an employee cannot exceed \$49,000 in a calendar year. During FYs 2010 and 2009, GSA (employer) contributions to FERS (24.9 percent of base pay for law enforcement

employees and 11.2 percent for all others) totaled \$97 million and \$87 million, respectively. Additional GSA contributions to the TSP totaled \$38 million and \$33 million in FYs 2010 and 2009, respectively.

D. Social Security System

GSA also makes matching contributions to the Social Security Administration (SSA) under the Federal Insurance Contributions Act (FICA). For employees covered by FERS, GSA contributed matching amounts of 6.2 percent of gross pay (up to \$106,800 in both calendar years 2010 and 2009) to SSA's Old-Age, Survivors, and Disability Insurance (OASDI) program in calendar year 2009. Additionally, GSA makes matching contributions for all employees of 1.45 percent of gross pay to the Medicare Hospital Insurance program in calendar year 2010. In FYs 2010 and 2009, 0.7 percent and 0.6 percent, respectively, of GSA employees are covered exclusively by these programs. Payments to these programs in FYs 2010 and 2009, amounted to \$70 million and \$64 million, respectively.

E. Schedule of Unfunded Benefit Costs

Amounts recorded in FYs 2010 and 2009, in accordance with FASAB SFFAS No. 5, for imputed post-employment benefits were as follows (dollars in millions):

	PENSION BENEFITS	HEALTH/LIFE INSURANCE	TOTAL
2010			
FBF	\$ 25	\$ 37	\$ 62
ASF	18	20	38
Other Funds	12	12	24
Total	\$ 55	\$ 69	\$ 124
2009			
FBF	\$ 12	\$ 31	\$ 43
ASF	10	17	27
Other Funds	7	12	19
Total	\$ 29	\$ 60	\$ 89

16. RECONCILIATION OF NET COSTS OF OPERATIONS TO BUDGET

The recognition of earning reimbursable budgetary resources and spending budgetary resources on the CSBR generally has a direct or causal relationship to revenues and expenses recognized on the Consolidating Statements of Net Cost. The reconciliation schedules below bridge the gap between these sources and uses of budgetary resources with the operating results reported on the Consolidating Statements of Net Cost for the fiscal years ending on September 30, 2010 and 2009 (dollars in millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
RESOURCES USED TO FINANCE ACTIVITIES										
Obligations Incurred	\$ 14,886	\$ 11,635	\$ 10,891	\$ 10,740	\$ 839	\$ 1,047	\$ -	\$ -	\$ 26,616	\$ 23,422
Less: Spending Authority From Offsetting Collections and Adjustments	(11,588)	(10,681)	(11,343)	(10,780)	(554)	(511)	-	-	(23,485)	(21,972)
Financing Imputed for Cost Subsidies	89	66	59	49	35	31	48	40	135	106
Other	2	-	(52)	5	186	(4)	-	-	136	1
Total Resources Used to Finance Activities	3,389	1,020	(445)	14	506	563	48	40	3,402	1,557
RESOURCES USED THAT ARE NOT PART OF THE NET COST OF OPERATIONS										
(Increase)/Decrease in Goods and Services Ordered But Not Yet Received	(3,385)	(1,173)	(514)	(532)	(4)	(32)	-	-	(3,903)	(1,737)
Increase/(Decrease) in Unfilled Customer Orders	906	572	764	390	1	(10)	-	-	1,671	952
Costs Capitalized on the Balance Sheet	(2,576)	(1,963)	(730)	(830)	(99)	(280)	-	-	(3,405)	(3,073)
Financing Sources Funding Prior Year Costs	(29)	(21)	34	6	(138)	(156)	-	-	(133)	(171)
Other	3	1	(7)	(4)	(47)	151	-	-	(51)	148
Total Resources Used That Are Not Part of the Net Cost of Operations	(5,081)	(2,584)	(453)	(970)	(287)	(327)	-	-	(5,821)	(3,881)
COSTS FINANCED BY RESOURCES RECEIVED IN PRIOR PERIODS										
Depreciation and Amortization	1,186	1,152	489	457	14	13	-	-	1,689	1,622
Net Book Value of Property Sold	14	-	271	271	6	-	-	-	291	271
Other	(4)	9	-	-	1	-	-	-	(3)	9
Total Costs Financed by Resources Received in Prior Periods	1,196	1,161	760	728	21	13	-	-	1,977	1,902
COSTS REQUIRING RESOURCES IN FUTURE PERIODS										
Unfunded Capitalized Costs	24	-	-	-	-	-	-	-	24	-
Unfunded Current Expenses	49	33	1	(3)	101	-	-	-	151	30
Total Costs Requiring Resources in Future Periods	73	33	1	(3)	101	-	-	-	175	30
Net (Revenues From) Cost of Operations	\$ (423)	\$ (370)	\$ (137)	\$ (231)	\$ 341	\$ 249	\$ 48	\$ 40	\$ (267)	\$ (392)

17. AMERICAN RECOVERY AND REINVESTMENT ACT

The American Recovery and Reinvestment Act (Recovery Act) of 2009 provided significant additional resources to GSA in FY 2009. Primarily, these resources come from direct appropriations provided in the Recovery Act, as well as an increased volume of reimbursable agreements as GSA programs provide procurement assistance to other organizations and agencies to help them expedite implementation of their Recovery Act responsibilities. While the execution of most activities follows standard federal accounting treatment, some of the activities required in the Recovery Act are unique. The GSA Recovery Act program to procure and distribute energy efficient motor vehicles to federal agencies involved procurement of new vehicles in exchange for an agency's old or less efficient vehicles. GSA acquisitions of new vehicles are initially classified as Other Assets

on the Consolidating Balance Sheets, and then are recognized as being transferred to the designated agencies when the exchange of vehicles occurs. The transfers-out are reflected on the Consolidating Statements of Net Position. When GSA sells the old vehicles, proceeds are retained as a reimbursement to the applicable fund, providing resources that may be used for additional vehicles. As of September 30, 2010 and 2009, this activity, included in the Other Funds category on those statements was as follows (dollars in millions):

ARRA VEHICLES

	2009	2010	TOTAL
Purchases of New Vehicles	\$ 268	\$ 75	\$ 343
Transfers to Participating Agencies	160	178	338
Value of Vehicles Awaiting Assignment			<u>\$ 5</u>

REQUIRED SUPPLEMENTARY INFORMATION



DEFERRED MAINTENANCE

As of the end of FY 2010, GSA had no material amounts of deferred maintenance cost to report. GSA administers the Building Maintenance Management program that, on an ongoing basis, maintains the Building Class inventory in acceptable condition, as defined by GSA management. GSA utilizes a condition assessment survey methodology, applied at the overall portfolio level, for determining reportable levels of deferred maintenance. Under this methodology, GSA defines "acceptable condition" and "acceptable level of service" in terms of certain National Performance Measures, formulated under the provisions of the Government Performance and Results Act (GPRA) of 1993.

GSA expenses normal repair and maintenance costs as incurred. GSA has no substantive backlog of deferred maintenance costs as defined by FASAB SFFAS No. 6, Accounting for Property, Plant, and Equipment, which is intended to report only maintenance items that would be expensed through the normal course of business.

SUPPLEMENTAL SCHEDULE OF BUDGETARY RESOURCES

In its principal financial statements, balances reported for the FBF includes activities funded by appropriations provided by the ARRA. To provide distinct budgetary and financial visibility of ARRA activities, a separate Treasury Account Fund Symbol (TAFS) was created for the FBF ARRA activities to allow tracking and distinction from the main TAFS used for the FBF. As the FBF ARRA activities are a very significant component of the total FBF budgetary results, below is a schedule showing the activities of the individual TAFS for the years ended September 30, 2010 and 2009 (dollars in millions):

	FBF - MAIN ACCOUNT		FBF - ARRA		FBF TOTAL	
	2010	2009	2010	2009	2010	2009
Budgetary Resources:						
Unobligated Balance, Net - Beginning Balance	\$ 5,138	\$ 4,420	\$ 4,152	\$ -	\$ 9,290	\$ 4,420
Prior Year Recoveries	233	92	7	-	240	92
Budget Authority:						
Appropriations	538	651	-	5,550	538	6,201
Spending Authority:						
Earned Revenue	10,442	10,017	-	-	10,442	10,017
Change in Unfilled Customer Orders	906	572	-	-	906	572
Previously Unavailable	604	288	-	-	604	288
Resources Temporarily Not Available	(1,032)	(604)	-	-	(1,032)	(604)
Transfers	(166)	(57)	-	(4)	(166)	(61)
Total Budgetary Resources	16,663	15,379	4,159	5,546	20,822	20,925
Status of Budgetary Resources:						
Obligations Incurred						
Direct						
Category B	-	-	3,808	1,394	3,808	1,394
Reimbursable						
Category A	-	10,150	-	-	-	10,150
Category B	11,078	91	-	-	11,078	91
Unobligated Balance - Available	4,702	4,638	351	4,152	5,053	8,790
Unobligated Balance - Not Available	883	500	-	-	883	500
Total Status of Budgetary Resources	16,663	15,379	4,159	5,546	20,822	20,925
Change in Obligated Balance:						
Obligated Balance, Net - Beginning Balance						
Unpaid Obligations, Oct 1	3,820	3,807	1,347	-	5,167	3,807
Less: Uncollected Customer Payments, Oct 1	(3,361)	(2,707)	-	-	(3,361)	(2,707)
Obligations Incurred	11,078	10,241	3,808	1,394	14,886	11,635
Less: Gross Outlays	(10,369)	(10,136)	(863)	(47)	(11,232)	(10,183)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(233)	(92)	(7)	-	(240)	(92)
Change in Uncollected Customer Payments (Increase)/Decrease	(904)	(654)	-	-	(904)	(654)
Obligated Balance, Net - End of Period:						
Unpaid Obligations	4,296	3,820	4,285	1,347	8,581	5,167
Less: Uncollected Customer Payments	(4,265)	(3,361)	-	-	(4,265)	(3,361)
Net Outlays						
Gross Outlays	10,369	10,136	863	47	11,232	10,183
Less: Offsetting Collections	(10,444)	(9,935)	-	-	(10,444)	(9,935)
Net Outlays	\$ (75)	\$ 201	\$ 863	47	\$ 788	\$ 248



U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

NOV 12 2010

MEMORANDUM FOR MARTHA N. JOHNSON
ADMINISTRATOR (A)

ALISON L. DOONE
CHIEF FINANCIAL OFFICER (B)

FROM: BRIAN D. MILLER *Brian D. Miller*
INSPECTOR GENERAL (J)

SUBJECT: Audit of the General Services Administration's
Fiscal Year 2010 Financial Statements

The Office of the Inspector General (OIG) contracted with the independent public accounting firm of KPMG LLP (KPMG) to audit the financial statements of the General Services Administration (GSA) for the fiscal year ended September 30, 2010. The purpose of this audit was to provide a report on internal controls over financial reporting including safeguarding assets and compliance with laws and regulations. In addition, if necessary, the audit reports instances in which GSA's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). Attached is a copy of that report.

The contract with KPMG required that the audit be completed in accordance with the following guidance: U.S. generally accepted government auditing standards; Office of Management and Budget audit guidance; and the Government Accountability Office / Council of the Inspectors General on Integrity and Efficiency *Financial Audit Manual*. KPMG is responsible for the attached auditor's report dated November 10, 2010, and the conclusions expressed therein. The OIG does not express opinions on GSA's financial statements, and related internal controls. In addition, we do not opine as to whether GSA's financial management systems substantially comply with FFMIA, nor do we reach conclusions on compliance with laws and regulations.

In its audit, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.
- There were no material weaknesses in internal controls over financial reporting.
- No instances in which the entity's financial management systems did not substantially comply with the requirements of FFMIA.

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However, KPMG identified the following significant matters:

- Weaknesses in the effectiveness of controls over GSA's budgetary accounts and transactions.
- Weaknesses relating to GSA's controls over the accounting for and reporting of general property and equipment.
- Weaknesses in the effectiveness of controls over GSA's accounting for and reporting of environmental liabilities.
- Weaknesses in controls over the revenue and expense recognition policies in the Federal Acquisition Services Fund.
- Weaknesses in general and application controls over financial management systems.

The Office of Inspector General appreciates the courtesies and cooperation extended to KPMG and to our audit staff during the audit. If you or your staff have any questions, please contact Theodore R. Stehney, Assistant Inspector General for Auditing at (202) 501-0374.

Attachments



KPMG LLP
 2001 M Street, NW
 Washington, DC 20036-3389

Independent Auditors' Report

Inspector General,
 United States General Services Administration:

We have audited the consolidated totals in the accompanying consolidating balance sheet of the United States General Services Administration (GSA) as of September 30, 2010 and 2009, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, and the combined totals in the combining statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. We have also audited the individual balance sheets of the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF) (hereinafter referred to as the "Funds") as of September 30, 2010 and 2009 and the related individual statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as the Funds' "individual financial statements") for the years then ended.

The objective of our audits was to express opinions on the fair presentation of these consolidated financial statements and the Funds' individual financial statements. In connection with our fiscal year 2010 audit, we also considered GSA's internal control over financial reporting and tested GSA's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements and the Funds' individual financial statements.

Summary

As stated in our opinions on GSA's consolidated financial statements and the Funds' individual financial statements, we concluded that GSA's consolidated financial statements and the Funds' individual financial statements as of and for the years ended September 30, 2010 and 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be significant deficiencies, as defined in the Internal Control Over Financial Reporting section of this report, as follows:

- A. Controls over budgetary accounts and transactions
- B. Controls over accounting and reporting of general property and equipment
- C. Controls over accounting and reporting of environmental liabilities
- D. Controls over the revenue and expense recognition policies in the Federal Acquisition Services Fund
- E. General and application controls over financial management systems

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control over Financial Reporting section of this report.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.



The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinions on GSA's consolidated financial statements and the Funds' individual financial statements; our consideration of GSA's internal control over financial reporting; our tests of GSA's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinions on the Financial Statements

We have audited the consolidated totals in the accompanying consolidating balance sheet of the United States General Services Administration as of September 30, 2010 and 2009, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, and combined totals in the combining statement of budgetary resources for the years then ended. We have also audited the individual balance sheets of the Funds as of September 30, 2010 and 2009 and the related individual statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GSA and the financial position of each of the Funds as of September 30, 2010 and 2009 and the consolidated and individual Funds' net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis section and the Required Supplementary Information in the Financial section of GSA's *2010 Agency Financial Report* is not a required part of the consolidated and Funds' individual financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the GSA's consolidated financial statements and the Funds' individual financial statements taken as a whole. The September 30, 2010 consolidating information in the Required Supplementary Information section of the of GSA's *2010 Agency Financial Report* is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, and budgetary resources of GSA's components individually. The September 30, 2010 consolidating information has been subjected to the auditing procedures applied in the audit of the GSA consolidated financial statements and the FBF individual financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the GSA consolidated financial statements and the Funds' individual financial statements taken as a whole. The information in the Other Accompanying Information section of GSA's *2010 Agency Financial Report* are presented for purposes of additional analysis and are not required as part of the consolidated and the Funds' individual financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.



Internal Control Over Financial Reporting

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Exhibit II presents the status of the prior year significant deficiencies.

We noted certain additional matters that we have reported to management of GSA in a separate letter dated November 10, 2010.

Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which GSA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements of GSA and the Funds' individual financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to GSA.

Auditors' Responsibilities. Our responsibility is to express opinions on the fiscal years 2010 and 2009 consolidated financial statements of GSA and the Funds' individual financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated and the Funds' individual financial statements are free of material misstatement.



An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GSA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated and the Funds' individual financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated and the Funds' individual financial statement presentation.

We believe that our audit provides a reasonable basis for our opinions.

In planning and performing our fiscal year 2010 audit, we considered GSA's internal control over financial reporting by obtaining an understanding of GSA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and the Funds' individual financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GSA's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether GSA's fiscal year 2010 consolidated financial statements and the Funds' individual financial statements are free of material misstatement, we performed tests of GSA's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts and the Funds' individual financial statements amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04 including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to GSA. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

GSA's responses to the findings identified in our audit are presented in Exhibit I. We did not audit GSA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the GSA's management, GSA's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 10, 2010

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

A. Controls over budgetary accounts and transactions

Budgetary accounts are a category of the general ledger accounts where transactions related to receipts, obligations, and disbursements of budgetary authority – the authority provided by law to incur financial obligations that will result in outlays – are recorded.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, sets forth requirements to develop control processes necessary to ensure that reliable and timely information is obtained, maintained, reported, and used for decision making. Additionally, OMB Circular No. A-127, *Federal Financial Systems*, provides a framework for Federal agencies to develop financial management systems that should generate reliable, timely, and consistent information necessary for meeting management's responsibilities, including the preparation of financial statements.

GSA policies require each of GSA's Services – Public Buildings Service (PBS) and Federal Acquisition Service (FAS) – to address the need to strengthen internal controls over budgetary reporting and to mitigate known weaknesses in the budgetary transaction level controls. In fiscal year 2010, GSA experienced a significant increase in its obligation transactions to meet the requirements of the American Recovery and Reinvestment Act of 2009 (Recovery Act), which required GSA to obligate approximately \$5 billion of the \$5.6 billion appropriated by September 30, 2010. Although GSA was able to meet this requirement, GSA needs to continue improving the effectiveness of controls over its accounting and business processes to ensure that budgetary transactions are properly recorded, processed, and summarized. Specifically, we noted the following internal control deficiencies in GSA's financial management systems and financial reporting processes, many of which were reported in the fiscal year 2009 *Internal Control over Financial Reporting* section of our Independent Auditors' Report.

In addition, GSA management's assessment of internal control reviews, performed as part of the OMB Circular No. A-123, Appendix A, indicated similar issues as those noted below.

1. Undelivered orders

Undelivered orders represent GSA's obligations that require the agency to make payments to the public or from one Government account to another. Under OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* requirements, obligations incurred must conform to applicable provisions of law, and agencies must be able to support the amounts reported by appropriate documentary evidence as defined by 31 U.S.C. 1501.

Of the 309 PBS obligations selected for test work, we noted 66 instances where contracts and modifications to contracts (including de-obligations) were not properly monitored, recorded accurately or timely, or entered into the financial management system. Additionally, we noted GSA did not provide proper documentation to support nine obligations recorded in the financial management system and recorded eight obligations in the financial management system before the contracts or the appropriate construction phase option modifications were signed. Further, as reported in the previous year, GSA did not consistently include the delivery date or period of performance for 8 of the 309 contracts tested; increasing the risk that management will not be able to determine the validity of its undelivered orders.

In addition, GSA did not effectively review its obligations resulting in an understatement of \$21.5 million in ASF undelivered orders related to intra-fund orders placed between two of ASF's programs but not recorded accurately in the financial management system. As a result of our observations, GSA adjusted its undelivered orders balance.

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

As reported in the previous year, the lack of integrated financial and acquisition systems combined with the ineffective communication between the program office and the Budget/Financial Management Office within the regions continues to be the contributing factor for obligations not being accurately recorded in the financial management system. As a result, PBS Central Office management continued to rely on costly compensating processes and labor-intensive efforts to prepare reliable financial statements throughout the year and at fiscal year-end.

2. Recovery of prior years' obligations

Recovery of prior years' obligations represents cancellations or downward adjustments of obligations incurred in prior fiscal years. As reported in the previous year, changes to certain fields in the financial management system related to prior year obligation information – such as vendor codes – cause a recording of a recovery of prior years' obligations regardless whether the obligation was actually cancelled or adjusted downward. Of the 35 reversing entries tested for correcting invalid recoveries of prior years' obligations, 30 were the result of human error, and 5 were due to system error. This condition requires extensive manual reviews and adjustments to detect and correct errors, rather than preventing them.

Recommendations

We recommend that GSA management continue to implement the following recommendations to improve controls over the accounting for budgetary transactions:

a. Undelivered orders

1. Continue efforts to evaluate the need to implement system interfaces between the contracting system and the financial management system of record;
2. Until such interfaces are in place, continue monthly reconciliation efforts between the contracting system and the financial management system and ensure sufficient resources are available to perform the reconciliations in a timely and routine manner. In addition, establish procedures to require the regional offices to investigate and resolve variances identified in a timely and consistent manner;
3. Perform procedures to ensure all obligations are captured and accurately recorded in the financial management system;
4. Institute policies and procedures to ensure that a contract delivery date or period of performance is stated on all obligating documents before obligations are authorized, when appropriate.
5. Ensure contracting officers and regional procurement officers review contracts thoroughly to ensure that contract options are correctly exercised, applicable Notice-to-Proceed documents are issued timely, and the correct Guaranteed Maximum Price is established before the contract award is signed and the obligation is recorded in the financial management system;
6. Assess the root causes of ineffective internal controls at the process level as part of the overall control deficiency assessment to help design an effective internal control environment that is suitable to GSA business processes;
7. Continue to improve the efficiency of transaction-level, process-driven controls to avoid overreliance on high-level mitigating controls over budgetary accounts and transactions;
8. Improve communication with GSA's procurement operations and the regions to better facilitate response times by regions for award acceptance and receipt of goods and services; and

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

9. Provide additional training to reinforce existing policies and procedures, which require that all obligations be entered into financial management systems timely and prior to the receipt of any goods and/or services by GSA.

b. Recovery of prior years' obligations

1. GSA needs to train users to prevent user errors, which account for the majority of the errors, and to continue to rely on its periodic reviews of the recovery of prior year obligation balances to ensure that balances reported in the financial statements are valid and accurate.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

B. Controls over accounting and reporting of general property and equipment

GSA reports \$23.7 billion in property and equipment net of accumulated depreciation as of September 30, 2010. GSA needs to improve controls over general property and equipment to ensure that transactions are promptly recorded, properly classified, and accounted for in accordance with requirements outlined in OMB Circular No. A-123. In addition, GSA needs to improve controls over the fixed asset subsidiary ledger system in order to prepare timely and reliable financial reports in accordance with OMB Circular No. A-127.

Further, GSA management's assessment of internal controls, performed as part of the OMB Circular No. A-123, Appendix A, reviews indicated similar control weaknesses in GSA's general property and equipment, as follows:

1. Buildings

GSA did not consistently record property disposals when they occurred. When a building is sold, conveyed, or demolished, the regional offices do not always notify the Office of the Chief Financial Officer (OCFO) to properly record the asset disposal and to reduce the building value in the financial management system, accordingly. GSA did not record asset disposals for 7 of the 67 buildings tested, which prompted a management analysis of the subsidiary ledger resulting in the identification and correction of an overstatement of the buildings balance and related accumulated depreciation of \$73 million and \$70 million as of September 30, 2010, respectively. As a result of our observations, GSA adjusted its buildings and related accumulated depreciation balances.

2. Land

GSA needs to revise its accounting policies to ensure that the value of land is properly recorded, summarized, and disclosed in the financial statements, in accordance with applicable Federal accounting standards. GSA overstated the land balance by \$107 million to account for certain environmental cleanup cost estimates that should have been expensed in accordance with applicable Federal accounting standards, as outlined in Statements of Federal Financial Accounting Standard (SFFAS) No.6, *Accounting for Property, Plant, and Equipment, Section 4 – Cleanup Costs*.

3. Construction in Process (CIP)

GSA needs to continue improving the effectiveness of controls over the proper classification of projects that are deemed substantially complete. GSA did not consistently record transfers of substantially completed projects from CIP to the buildings balance in a timely manner for 7 of 57 CIP transfers to completed buildings transactions tested. Due to inconsistent application of PBS's guidance as to the definition of when a project is substantially complete, the size and complexity of

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

GSA's construction projects combined with control weaknesses in the fixed assets subsidiary ledger and the manually intensive process of determining and documenting substantial completion dates, there is an increased risk that asset transfers may not be recorded to the general ledger in a timely manner, which could also lead to misstatements in depreciation expense.

GSA capitalizes all cleanup costs related to abatement, remediation, and/or disposal of hazardous waste associated with renovation projects. In accordance with applicable Federal accounting standards these environmental cleanup costs should have been expensed. This condition caused an overstatement of the CIP balance of \$63 million, as of September 30, 2010. If not corrected, as GSA incurs costs for renovation projects under the Recovery Act in future years, there is an increased likelihood that the amount of cleanup costs for hazardous waste incurred as part of such renovation projects will become significant, thereby increasing the risk of significant misstatements in the CIP, building, and operating expense balances.

4. Fixed assets subsidiary ledger

In fiscal year 2009, GSA implemented a fixed asset module in its financial management system to better track property transactions and to accommodate multiple substantial completion dates for the more complex multi-asset construction projects. However, front-end system edit checks that will prevent an asset from being posted to a different property category in the fixed asset subsidiary ledger and in the general ledger were not developed and enabled, resulting in misclassifications in the different property categories and requiring management to maintain a separate subsidiary ledger, as well as prepare extensive manual reviews and adjustments for detecting and correcting property misclassification errors, rather than preventing them.

Recommendations

We recommend that GSA management implement the following recommendations to improve controls over the accounting for general property and equipment:

a. Buildings

1. Develop policies and procedures to ensure that the property listed in the fixed asset subsidiary ledger is accurate;
2. Ensure policies and procedures for reporting asset disposal or conveyance are adhered to across GSA Regional Offices;
3. Develop policies and procedures to improve communications between Central Office and the regional portfolio managers regarding asset disposals or conveyance to ensure all parties have an understanding of the documents and notifications needed for the OCFO to record the asset disposals in a timely manner; and
4. Develop and deliver training on an ongoing basis to all portfolio managers regarding the reporting of real property disposal or conveyance to ensure that all of the appropriate requirements are fulfilled and consistently recorded in accordance with GSA policies and procedures.

b. Land

1. Evaluate the posting logic over the accounting entries related to environmental liabilities affecting property to ensure the land balance remains properly stated in accordance with applicable Federal accounting standards.

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

c. Construction in Process

1. Evaluate the accounting policies to properly track and account for cleanup costs of hazardous waste incurred during renovation projects in accordance with applicable Federal accounting standards. Such review should include policies and procedures to determine the type of cleanup cost related to hazardous waste that, by its definition, will not extend the useful life of an asset or improve its capacity;
2. Continue current initiatives to strengthen internal controls over proper classification of costs associated with projects and ensure proper data entry and timely transfer of costs between the construction in process and building accounts;
3. Continue efforts to communicate the definition of “substantial completion dates” to Regional Offices; and
4. Central Office continue its reconciliation efforts to review the validity of substantial completion dates entered in the applicable feeder systems and the fixed assets subsidiary system to ensure that substantially completed CIP projects are transferred to the appropriate asset account in a timely manner.

d. Fixed assets subsidiary ledger

1. Develop and enable front-end system edit checks that will prevent an asset from being posted to a different property category in the fixed asset subsidiary ledger and in the general ledger; and
2. Until the different property categories are properly captured in the fixed assets subsidiary ledger, GSA needs to continue to perform periodic reconciliations of the general property and equipment classifications to ensure that property balances reported in the financial statements are valid and accurate.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

C. Controls over accounting and reporting of environmental liabilities

GSA manages over 1,500 owned properties with an average age of 46 years, including 298 buildings considered heritage assets. Certain properties contain environmental hazards that will ultimately need to be removed and/or require containment mechanisms to prevent health risks to the public. SFFAS 5, *Accounting for Liabilities of the Federal Government*, SFFAS 6, *Accounting for Property, Plant and Equipment* and Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, issued by the Federal Accounting Standards Advisory Board, set forth the requirements and guidance for accounting and reporting environmental liabilities. GSA needs to improve the effectiveness of controls over accounting and reporting environmental liabilities.

GSA has not established effective policies and procedures to routinely and consistently identify and forward information relating to environmental issues to the appropriate offices to ensure the completeness of the environmental liability. GSA was unable to provide consistent documentation supporting its due care process for evaluating the likely presence of environmental contamination or completed the documentation supporting the due care process after the information was requested. Although GSA has developed environmental liability guidance, such guidance has not been properly communicated to the Regional Offices and it does not provide enough information for the Regional Offices to clearly determine, document, and communicate environmental liabilities. As a result of our observations, GSA performed additional analysis to ensure the environmental liability balance was not significantly misstated.

Independent Auditors' Report

Exhibit I – FY 2010 Significant Deficiencies

Recommendations

We recommend that GSA management perform a comprehensive analysis of the root causes of ineffective controls over the accounting and reporting of environmental liabilities as part of the overall control deficiency assessment to help design an effective internal control environment over environmental liabilities that is suitable for GSA business processes. Specifically;

1. Update and enforce the current environmental liabilities guidance to include a consistent approach for performing and documenting the due care process, including how often a property pre-screening should be performed, and what constitutes adequate documentation to support the due care process;
2. Develop policies and procedures to improve communications between Central Office and the Regional environmental managers and engineers regarding environmental issues to ensure all parties have an understanding of the reporting requirements and the status of each environmental remediation site and any actions taken to remediate the site;
3. Develop policies and procedures to determine what constitutes adequate documentation to support the environmental cleanup estimates recorded in the financial management system. In addition, Regional environmental managers should maintain the supporting documentation for their respective sites and such documentation should be readily available upon request; and
4. Develop and deliver training on an ongoing basis to all Regional environmental managers and engineers regarding the financial reporting requirements of environmental liabilities.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

D. Controls over the revenue and expense recognition policies in the Federal Acquisition Services Fund

The Federal Acquisition Service (FAS) is the lead organization for procurement of products and services, other than real property, for the Federal government. As of September 30, 2010, FAS reports \$9.4 and \$9.2 billion in revenues and expenses, respectively.

GSA needs to improve controls over the accounting policies and procedures over the recognition of revenues and expenses for portions of two of the lines of business administered by FAS, as required by SFFAS No. 7, *Accounting for Revenues and Other Financing Sources* and SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, issued by the Federal Accounting Standards Advisory Board, respectively. Specifically, GSA did not recognize revenues when goods or vehicles were provided to the customer agency and recognized expenses before goods or vehicles were received from the supplier. This deficiency affected the individual financial statements of the ASF. If not corrected, as the volume and complexity of transactions processed by FAS continue to increase in the future, there is an increased risk that the individual financial statements of the ASF could be significantly misstated. GSA prepared an analysis at year-end to assess the effect of not recognizing revenues and expenses in accordance with Federal accounting standards and determined the amounts were immaterial.

Recommendations

We recommend that GSA management implement the following recommendations to improve controls over the revenue and expense recognition policies in the Federal Acquisition Fund. Specifically,

1. Perform a comprehensive analysis of the current accounting policies used to recognize revenues and expenses incurred in the FAS lines of business affected to ensure that those transactions are recorded in accordance with applicable Federal accounting standards;

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

2. Develop monitoring controls to ensure that revenue and expense balances, in the FAS lines of business affected, accurately reflect the proper matching of revenues and expenses under current Federal accounting standards; and
3. As part of the modernization of GSA's financial systems, assess the need to adjust or implement automated application controls to ensure that the corresponding FAS feeder systems have the capability to capture all necessary data to report financial transactions in accordance with Federal accounting standards.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

E. General and application controls over financial management systems

GSA did not have adequate information technology controls to protect its financial management systems as required by OMB Circular No. A-130, *Management of Federal Information Resources*. These conditions could affect GSA's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources. During fiscal year 2010, we continued to note improvements in GSA applications and general controls. GSA put in place a corrective action plan to address the pervasive weaknesses identified in prior years' audit findings from an agency-wide root-cause approach. However, GSA needs to continue improving the security and general controls over its financial information systems, as discussed below:

1. Access controls

Access controls protect computer resources from unauthorized modifications, disclosures, and loss. However, of the 13 systems tested, GSA did not fully establish controls to prevent and detect unauthorized access for 5 systems; and did not consistently ensure accounts for separated users are removed in a timely manner and inactive accounts were disabled for 4 systems. In addition, GSA did not implement configuration settings to its most restrictive settings to protect systems and data for nine systems. Furthermore, GSA does not have a process in place to develop and maintain a comprehensive inventory of systems; and did not maintain a unified and updated listing of all of the roles for the general ledger and the specific rights and privileges assigned to a user. Finally, GSA did not fully establish monitoring controls over application and system activity logs and violation reports of user actions for six systems.

2. Segregation of responsibilities

Lack of controls to prevent the assignment of access to incompatible functions within and between systems exposes GSA to the risk that certain users may be assigned the ability to perform multiple critical system transactions. GSA did not periodically review segregation of responsibilities to ensure conflicting access rights are not granted for three systems. Furthermore, GSA did not consistently ensure users' access was restricted from performing incompatible functions for one system.

Independent Auditors' Report
Exhibit I – FY 2010 Significant Deficiencies

Recommendations

We recommend that GSA management continue to improve controls over its financial information systems to ensure adequate security and protection of the information systems, as follows:

1. Develop and implement a process to review and document the review of audit logs related to financial system access and processing;
2. Improve upon existing procedures to define events to be monitored over application and system activity logs and violation reports of user actions;
3. Ensure policies to approve and remove access are consistently adhered to across the information systems;
4. Ensure policies to recertify users are consistently adhered to across information systems; and
5. Maintain a unified updated listing of all of the roles for the general ledger and the specific rights and privileges assigned to a user.

Management Response

Management concurs with these recommendations and will initiate appropriate corrective actions.

Independent Auditors' Report
Exhibit II – Status of Prior Year Findings

Status of GSA's Prior Year Findings		
Report	Significant Deficiency	Status
Fiscal Year 2009	A. Controls over budgetary accounts and transactions	This condition has been partially resolved in fiscal year 2010. See finding A.
Fiscal Year 2009	B. Controls over accounting and reporting of non-cancellable agreements	This condition has been resolved in fiscal year 2010. Remaining matters have been communicated in a separate letter to management.
Fiscal Year 2009	C. Controls over financial reporting	This condition has been resolved in fiscal year 2010.
Fiscal Year 2009	D. General and application controls over financial management systems	This condition has been partially resolved in fiscal year 2010. See finding E.

OTHER ACCOMPANYING INFORMATION





U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

OCT 15 2010

MEMORANDUM FOR MARTHA N. JOHNSON
ADMINISTRATOR (A)

FROM: BRIAN D. MILLER 
INSPECTOR GENERAL (J)

SUBJECT: GSA's Major Challenges

Attached is a copy of our office's updated assessment of the major challenges currently facing GSA. The Reports Consolidation Act of 2000, Public Law 106-531, requires that each Office of Inspector General (OIG) prepare a statement that summarizes what the Inspector General considers to be the most significant management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges.

We are hereby providing you with our assessment to afford you the opportunity to review and prepare any comments you wish to append.

If you have any questions or wish to discuss this, please call me at 202-501-0450. If your staff needs any additional information, they may contact Theodore R. Stehney, Assistant Inspector General for Auditing, at 202-501-0374.

Attachment

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OFFICE OF INSPECTOR GENERAL'S ASSESSMENT OF GSA'S MAJOR MANAGEMENT CHALLENGES



OCTOBER 2010

As required by the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) regularly identifies what it considers the U.S. General Services Administration's (GSA) most significant management challenges. This effort highlights the Agency's most demanding issue areas. Some challenges represent an inherent risk to GSA's mission or programs and not necessarily a deficiency in performance. As such, GSA management may not be able to eliminate some challenges, but should continue to take steps to mitigate these challenges.

The following represent the areas in which GSA is facing the most serious challenges: the Greening Initiative, Acquisition Programs, Financial Reporting, Information Technology, Protection of Federal Facilities and Personnel, the Federal Buildings Fund (FBF), and the Impact of the American Recovery and Reinvestment Act.

GSA'S "GREENING" INITIATIVE – SUSTAINABLE ENVIRONMENTAL STEWARDSHIP

ISSUE: *Challenges exist in achieving GSA's sustainability and environmental goals.*

GSA plays a major role in federal construction, building operations, acquisition, and government-wide policy. With the enactment of the Energy Independence and Security Act of 2007 (EISA), the American Recovery and Reinvestment Act (Recovery Act), and Executive Order 13514, GSA has received additional responsibilities to lead change towards sustainability in these areas. Under these initiatives, GSA is required to increase energy efficiency; reduce greenhouse emissions; conserve water; reduce waste; support sustainable communities; and leverage federal purchasing power to promote environmentally responsible products and technologies.

In response, GSA issued its Fiscal Year 2010-2015 Strategic Sustainability Performance Plan (Sustainability Plan). However, GSA faces challenges in implementing its Plan and achieving its goal of a Zero Environmental Footprint. This is especially pertinent as the Plan requires a cohesive and coordinated implementation of diverse functions and initiatives throughout the agency and government. The move towards sustainability will not only require the implementation of sustainable practices within the agency, but also in coordination with customer agencies and contractors. It will also require actions at the building level as specific emerging technologies and measures are implemented and at the employee level as employees are tasked with changing their behaviors.

We have identified three obstacles for GSA's sustainability initiatives: 1) developing a management framework that GSA will use, 2) developing metrics to accurately measure and demonstrate the impact of GSA's changes, and 3) collecting data to support goals and evaluate return on investment.

Management Framework for Sustainability

To successfully implement its Sustainability Plan, GSA needs a transparent management framework that uses a collaborative approach that "drives things down" throughout the Agency's organization and in coordination with customer agencies and contractors. GSA's sustainability initiative cuts across all of the Agency's business lines, but there is not a clear process that brings the disparate parts together and implements overall program management. The successful implementation is highly dependent on communication that also cuts across program lines and extends to

external partners. When sustainability initiatives began, GSA did not have a management framework in place to lead its efforts and evaluate results. There were individual achievements, but with little follow-up once a measure was implemented. For example, GSA required construction projects to seek LEED certification and implemented building improvements aimed at improving energy efficiency. However, no program was set up to monitor and evaluate the actual results.

Metrics Need to be Developed and Adopted

GSA needs metrics that align with the Agency's mission and are meaningful, balanced, and encourage improvement in sustainable processes. In addition, GSA needs to adopt a return-on-investment (ROI) approach to demonstrate economic lifecycle viability as well as whether or not an outcome is "greener" due to any improvements in technologies and processes. However, the development and adoption of metrics may be problematic. In many cases, the metrics related to sustainability are not standardized and there may be multiple methodologies to measure a given aspect of sustainability. In addition, monitoring and tracking the effectiveness of all actions being taken will be a large undertaking given the extent of GSA's operations. Further, metrics by themselves may not be reliable as there may be a multitude of factors impacting a specific metric. For example, a building's energy usage may be affected by not only new equipment being installed in a building, but also by the severity of the local weather and the operations or habits of the building's tenants.

Capturing Accurate and Complete Data

As the Agency invests in and implements new sustainable technologies, which tend to cost more than conventional technologies, it needs to be able to demonstrate its benefits – accurate, complete, and replicable data is crucial. However, capturing accurate and complete data is a challenge. To be useful in monitoring and evaluating sustainable activities, baseline data is needed as well as continuous measurement into the future. In some cases, baseline data is not available nor have processes been put in place to capture the data. For example, under the American Recovery and Reinvestment Act, GSA is installing meters in many of its buildings, which means the baseline data wasn't captured previously and that there may still be buildings without the necessary equipment. The result of these data gaps is that in some cases results cannot be evaluated or in other cases the missing data can lead to misleading or misreported metrics. To ensure these impacts are taken into account, data gaps need to be identified during reporting so that users of the data are fully informed.

AGENCY ACTIONS: GSA developed a Strategic Sustainability Performance Plan that describes the Agency's sustainability goals and objectives. In addition, GSA has established the Sustainability Steering Committee chaired by the Agency Senior Sustainability Officer to ensure that the Agency's sustainability goals, strategies, and actions are coordinated, integrated, and that consistent progress towards target levels of performance is demonstrated. The Agency plans to disseminate its sustainability goals and objectives across its 11 geographic regions and its headquarters through internal and external communications, management councils and committees, and in employee performance plans and expectations.

The Agency also plans to develop a system of internal controls for risk-based testing of the quality of its greenhouse gas (GHG) measurement and reporting. The Agency will identify and document risks that create uncertainty in its GHG emissions data, establish mitigating controls to improve data quality, and disclose identified weaknesses in its GHG emissions data. GSA will explore the use of independent third parties to validate, provide assurances, or audit GSA GHG emissions data "accuracy".

The Agency plans to implement the Department of Energy's guidance on estimating total Economic Life Cycle Cost as it is released. In many cases, GSA has established minimum standards that all potential investments must meet. In other

cases, such as small energy and water savings projects, potential projects are ranked and prioritized based on financial return, estimated energy or water savings, and potential greenhouse gas emissions reductions. The Agency uses Lean Six Sigma methodologies to review programs and processes to eliminate wasted effort; GSA is currently developing a “Green Six Sigma” methodology to review programs and processes to reduce or eliminate wasted energy, water, and other resources, as well. The Agency also includes social factors in its business decision-making. GSA considers local economic conditions when evaluating sites for new federal buildings and leases, and it often selects locations where a large federal presence will stimulate new economic development.

ACQUISITION PROGRAMS

ISSUE: *As we have noted in past years, pricing and compliance challenges persist in the Multiple Award Schedules (MAS) program. Additional challenges include the increased contract workload caused by a surge in offers resulting from the economic downturn and subsequent implementation of the American Recovery and Reinvestment Act. Additionally, recommendations made by the MAS Advisory Panel, proposed changes to the General Services Administration Acquisition Manual (GSAM) and the transition to Networx all present unique challenges and opportunities.*

The MAS program remains one of GSA’s largest procurement programs with approximately 18,000 contracts and well over \$38 billion in sales in fiscal year (FY) 2009. The MAS program provides federal agencies and other authorized users with a simplified procurement process to purchase over 12 million commercial items and services at prices associated with volume buying. GSA negotiates MAS contracts with the objective of achieving the contractors’ most favored customer (MFC) pricing/discounts, given similar contract terms and conditions. Authorized users then simply order supplies or services from the schedules (or catalogs) at the pre-negotiated prices and pay the contractors directly for their purchases. While revenue growth in the MAS program has slowed, it remains positive and revenues are substantial.

Pricing

Price analysis is the key substantive step a contracting officer performs for the purpose of arriving at fair and reasonable prices. With the large volume of MAS program sales, even minor changes in pricing can have a substantial impact. We are concerned that the emphasis on related MAS program fundamentals – including pricing objectives and other pricing tools – has diminished. These fundamentals are set by regulation and include the mandate to seek the contractor’s best price (MFC pricing); the requirement to perform meaningful price and cost analysis when awarding or extending contracts; and the use of field pricing assistance in negotiating contracts.

Contractors do not compete against each other to receive an MAS contract. Rather, GSA evaluates a contractor’s offer by comparing it to the contractor’s agreements with its other customers. The MAS program operates under the premise that contractors routinely sell commercial products and services in competitive markets, and that this competitive process establishes market prices (fair and reasonable prices). Given the lack of competition at initial contract award, the requirement for GSA to seek MFC pricing provides an essential link from MAS contract pricing to the competitive commercial market. The MFC pricing objective also harnesses the federal government’s collective buying power at the MAS contract level for pricing purposes.

The broad definition of a commercial item in the Federal Acquisition Regulation (FAR) also impacts MAS pricing. Under the current definition, a commercial item is any item - and many services - of a type customarily used by the general public. However, the FAR definition does not require that contractors have any actual commercial, competitive sales of a product or service, and thus removes a critical link between the MAS program and competitively established market pricing. With this broad definition of a commercial item, it has been our experience that many MAS contractors have only federal government sales. We have also found contractors who create a corporate structure to organizationally segregate their commercial business from their government business. In addition, even when a commercial market exists

for a contractor's services, its commercial contracts are typically awarded on a firm fixed price basis, while its contracts with GSA schedule clients are mainly on a time and materials basis. All of these scenarios present challenges in terms of comparability and impact a contracting officer's ability to perform valid price analyses.

Pre-award audits provide contracting officers with additional details regarding a contractor's pricing and sales practices in anticipation of negotiations, and are a tool contracting officers can use to be assured that a contractor's pricing is appropriate. Based on our pre-award audits, we have reported that contracting officials were not consistently negotiating MFC prices; many MAS contract extensions were accomplished without adequate price analysis; and available tools were not being used effectively to negotiate better MAS prices. Additionally, we have found that some contractors will go to great lengths to misrepresent their actual sales prices. In FY 2009 alone, we found flaws in many of the proposals audited, amounting to over \$560 million in proposed contract price reductions and over \$30 million in recoveries.

Problems with contract compliance have also led to pricing issues. As a recent example, in May 2010, a MAS contractor agreed to pay the United States Government \$87.5 million to resolve alleged false claims and contract fraud. This contractor knowingly failed to comply with the Price Reductions clause of its GSA contract by failing to disclose to GSA discounts the contractor gave to its commercial customers, which were higher than the discounts that had been disclosed to GSA.

Other Considerations Impacting MAS

We have two additional concerns with regards to the MAS program. First is the MAS Advisory Panel recommendations presented in February 2010. Among the recommendations was the elimination of the Price Reductions clause with competition occurring at the task order level by the purchasing agency. We are concerned that, if the Price Reductions clause is eliminated, the MAS program will have lost a critical contractual requirement that protects taxpayer dollars by ensuring that fair and reasonable pricing is maintained throughout the potential 20-year lifespan of MAS program contracts. As the Veterans Administration OIG noted in its comments to GSA on the MAS Advisory Panel recommendations, "If the recommendations are implemented, contract pricing will no longer be considered fair and reasonable which defeats the purpose of having the schedules. If contract pricing is no longer fair and reasonable, we seriously question the value added by the schedules to the procurement process."

We also have concerns in two areas regarding the rewrite of the GSAM. First, we believe the proposed changes will result in a major weakening of the controls over the MAS program, make the MAS program less useful to user agencies, and waste significant amounts of taxpayer dollars. Second, we believe issuance of the Final Rule in its current form, with significant changes that have not been published or otherwise publicly communicated, would not be consistent with the Administration's emphasis on transparency in government operations. We believe the number and extent of changes from the originally published proposed rule warrant a new round of public comment.

Contract Workload Management

Managing the workload associated with approximately 18,000 contracts is a challenge for the MAS program. This workload includes the processing of contract actions such as new offers, modifications, and options to extend existing contracts, as well as the need for ongoing contract oversight. Further adding to the already burdensome workload is the number of new offers, which has increased by as much as 140 percent as a result of the economic downturn and the Recovery Act, and the over 6,000 contracts that had no reported contract sales in FY 2009. Our concerns include the demands placed on the workforce by a large and increasing contract workload, the potential impact on timeliness and quality of contract actions, and the costs associated with unused and underutilized contracts.

AGENCY ACTIONS: GSA management has shown their desire to address some of the issues stated above. For example, GSA management stated to the Government Accountability Office (GAO) that it will make additional efforts to improve the MAS program pricing and management. These efforts will include using pre-award audits, clarifying price objectives, establishing more consistent performance measures, and collecting transactional data on MAS orders and prices. The program for pre-negotiation clearances to ensure the quality of the most significant contract negotiations is ongoing. In this process, the contracting officer presents a summary of his or her actions in developing negotiation objectives including market research, contractor responsibility, and price analysis to a panel for evaluation. Also, there are several initiatives that may have an effect on the program in FY 2010. FAS established an office in October 2008 to develop and implement consistent acquisition policy and guidance for the MAS program that was previously housed under several different offices within FAS. In addition, FAS is using Lean Six Sigma¹ in evaluating its contracting process, emphasizing process efficiency and effectiveness.

GSA Administrator Johnson has articulated her vision of transforming GSA into an innovative change agent for Government. This vision includes GSA changing its offerings to influence behaviors of federal agencies to reduce consumption and waste, and to improve efficiency and effectiveness. Additionally, the Administrator has created a zero-environmental footprint goal for GSA.

Networx Management Challenge

The transition of government agencies from the FTS2001/Crossover contracts to the Networx contracts, Universal and Enterprise, is one of the largest telecommunications services transitions ever undertaken by the federal Government. It will involve more than 135 agencies, more than 50 services, and thousands of voice and data circuits. The Networx contracts are valued at \$68.2 billion, divided between Networx Universal and Networx Enterprise.

In a May 2010 U.S. House of Representatives Committee on Government Oversight and Reform meeting, GSA management acknowledged Government delays early in transitioning, but also stated that current measures indicate agencies are doing everything possible to meet transition schedule deadlines. Meeting the transition schedule deadlines will require coordination among agencies, GSA, and a host of telecommunications contractors.

AGENCY ACTIONS: In an effort to decrease the immediate transition burden on agencies migrating from the existing FTS2001/Crossover contracts, GSA awarded bridge contracts that provide for continued service beyond the expiration of FTS2001 in 2006 and 2007. The bridge contracts expired in May and June 2010; however, GSA exercised the continuity-of-service contract provisions allowing the contracts to be extended until May/June 2011. While management believes that most agencies will complete the transition by June 2011, there is a significant risk that some will not. In anticipation of some agencies not completing the Networx transition by the deadline, GSA management stated it is in the process of creating follow-on sole source contracts to FTS2001 contractors.

FINANCIAL REPORTING

ISSUE: *Controls over budgetary accounts and transactions, financial reporting, and controls over certain note disclosures need improvement.*

Since FY 2004, the Independent Public Accountant (IPA) has noted deficiencies in GSA's accounting process for reporting budgetary account balances. While improvements have been observed during the fiscal year 2010 audit, similar

¹ Lean Six Sigma combines the principles of two proven process improvement methodologies: **(1)** Lean (reducing and eliminating non-value activities); and **(2)** Six Sigma (reducing variation, increasing quality) to improve process effectiveness and alignment with customer needs.

deficiencies noted in the past continue to be observed. A contributing factor to GSA's deficiencies is the non-existence of a single acquisition system that ties directly into Pegasys.

AGENCY ACTIONS: The Office of the Chief Financial Officer is working in partnership with the business and Office of the Chief Information Officer (OCIO) staffs across GSA to ensure that we continue to implement an integrated financial management system for use by program offices to promote consistency and reliability of budgetary and financial information.

INFORMATION TECHNOLOGY

ISSUE: *Improved planning, development, and implementation of IT systems and services are needed to ensure quality data and to support business decisions.*

Planning, developing, and implementing cost-effective, customer-focused, and performance-based IT systems in support of GSA's strategic business goals and various missions has never been more important. The GSA Chief Information Officer (CIO) has stated that providing effective and reliable IT systems and solutions and providing balanced stewardship of information and technology are key agency-wide IT strategic goals related to supporting GSA's implementation of the Recovery Act. GSA management faces challenges in meeting these two goals because GSA systems often do not integrate with each other, resulting in duplication of business processes, cost inefficiencies, and customer dissatisfaction. Challenges in reengineering business processes across the agency and implementing enterprise architecture have lead to duplicative systems that are costly to maintain and operate. Duplicative business processes and systems make it difficult for the Agency to track and report management information needed to make strategic system decisions and support the Recovery Act.

Shared services and integrated information systems are also needed to enhance data quality and ensure that transparency and accountability goals are achieved. GSA's initial information and data quality plan, prepared in response to the OMB's *Open Government Directive: Framework for the Quality of Federal Spending Information*, notes that the role of enterprise architecture and the use and management of IT are critical factors to consider for ensuring a sustainable data quality program. GSA IT systems, however, do not always use effective data models, business rule validation checks, or data exchange specifications to ensure data quality.

AGENCY ACTIONS: To guide agency IT investment decisions and communicate long-term goals and objectives, the GSA CIO has developed an IT Strategic Business Plan covering FYs 2010 – 2012. The plan is intended to enable the planning, decision making, acquisition, and execution of IT services by individual Services/Staff Offices and business-level program areas. GSA Services and Staff Offices have requested funding for new IT programs and initiatives, as part of the Agency's FY 2011 budget. These new IT programs and initiatives seek to better manage risks with GSA's legacy systems environment and relate to: (1) modernizing the Agency's acquisition management systems (2) providing a wider selection of web-based services and facilitating electronic data exchange (3) enhancing IT security practices and (4) implementing a new billing and accounts receivable function within the Agency's financial management system of record.

ISSUE: *Improvements are needed in GSA's IT Security Program to protect sensitive Agency information and address emerging risks.*

Improved processes and controls to address evolving IT security risks and requirements established with the Federal Information Security Management Act of 2002 (FISMA), pose long-term challenges for GSA leadership. GSA continues to have issues with Information Technology (IT) system access, separation of duties, and monitoring of controls. For several years, deficiencies related to the aforementioned have been noted by the IPA. During FY 2010, the IPA noted improvements in this area; however, additional improvements are necessary.

Ensuring that system security officials comprehensively evaluate risks and implement necessary controls for GSA IT systems through the Agency's certification and accreditation process remains a key challenge for GSA's IT Security Program. Specifically, the certification and accreditation process oftentimes is not providing senior Agency management with the information needed to make risk-based decisions about the IT systems for which they are responsible. Further, GSA's IT Security Program should improve processes for coordination, collaboration, and accountability across the Agency to address high priority risk areas related to: (1) oversight of contractor supported systems, (2) integration of security into the systems development lifecycle, and (3) controls for sensitive data.

The use of cloud computing technologies is an emerging risk area that must be managed with GSA's IT Security Program. GSA is evaluating the use of cloud computing technologies for e-mail services, citizen engagement, and data center consolidation. Potential benefits to be achieved with cloud computing technologies include cost efficiencies, "green" efficiencies such as lower power consumption and a reduction in carbon footprints, and enhanced security. However, GSA must address risks with using cloud computing related to records management, privacy, security, continuous monitoring, and e-discovery to realize potential benefits.

AGENCY ACTIONS: GSA has been named the managing partner of the Federal Risk and Authorization Management Program (FedRAMP). FedRAMP is a government wide initiative to provide joint security certifications and accreditations and continuous monitoring services for large, outsourced, and multi-agency systems. The initial focus of FedRAMP will be on cloud computing deployments. GSA is also the lead agency for seven cloud computing pilot projects that are funded by the FY 2010 electronic government fund: Apps.gov, Citizen Engagement Platform, USASpending.gov, Federal Risk and Authorization Management Program, Open Innovation Challenge Platform, FedSpace, and Email as a Service.

ISSUE: *Increased contract oversight and coordination is needed for successful implementation of government wide systems.*

As a managing partner for four electronic government initiatives (Federal Asset Sales, USA Services, Integrated Acquisition Environment, and E-Travel) and IT programs designed to make government operations more transparent, GSA plays a leading role in improving IT for the federal government, citizens, and businesses. As such, GSA is responsible for ensuring that these initiatives are cost effective, streamline government operations, increase efficiency, and meet the needs of a diverse customer. Success for GSA as a managing partner for these initiatives will require innovation and the ability to respond quickly to changing customer requirements and risks. Contract oversight and governance to ensure that systems supporting these initiatives are developed, maintained, and operated in accordance with federal policy, standards, and guidelines are key challenges facing GSA. Further, ensuring system usability and satisfaction remains a challenge to ensuring broad adoption of these initiatives.

PROTECTION OF FEDERAL FACILITIES AND PERSONNEL

ISSUE: *Challenges exist to safeguard federal facilities and to provide a secure work environment for federal employees.*

Providing a safe, healthy and secure environment for over one million employees and visitors to approximately 9,600 owned and leased federal facilities nationwide is a major multifaceted responsibility of GSA. Increased risks from terrorism have greatly expanded the range of vulnerabilities traditionally faced by building operations personnel. Nonetheless, ensuring that federal employees have a secure work environment and that building assets are adequately safeguarded must remain a primary consideration for GSA.

GSA's mission of housing federal agencies calls for the Agency to closely interact with security personnel. The Federal Protective Service (FPS) is the primary agency responsible for providing protection to GSA buildings and facilities. Prior to becoming a part of the Department of Homeland Security (DHS) in 2003, FPS was actually part of GSA's Public

Building Service (PBS). Since then, GSA and FPS have operated under a Memorandum of Agreement (MOA) for obtaining building security services.

We remain concerned about the protection of federal buildings because of the shortcomings that have been identified by the GAO in FPS's ability to provide security and the amount of funds available for building security measures. In FY 2010, GAO identified significant issues with FPS's ability to provide security, including critical weaknesses in the Contract Guard program, the lack of a risk management framework that couples threats and vulnerabilities with resource requirements, and the lack of a systematic approach for using technology to reduce risk to federal buildings and facilities. Further, GAO determined that FPS was inconsistent in sharing information and coordinating security with GSA and tenant agencies. In addition, GAO found that limited information about risks and the inability to control common areas and public access pose challenges to protecting GSA leased space. (GAO-10-873)

The availability of funds for security measures is also an ongoing issue. Under the existing MOA, security fixtures and mandatory security equipment countermeasures valued above the prospectus-level, or installed in prospectus-level projects, have been purchased and installed by GSA on a prioritized, funds-available basis. PBS Regional Commissioners reserve the right not to implement mandatory measures, after consulting with DHS. With the exception of prospectus-level equipment or projects, security equipment determined by FPS to be a mandatory countermeasure is supposed to be funded by DHS or tenant agencies through Security Work Authorizations, on a prioritized, funds-available basis. FPS has been experiencing major funding shortfalls which could affect the availability of future funding for upgrades and replacement of the security countermeasure equipment initially authorized directly by Congress.

AGENCY ACTIONS: GSA formed a Security Division within the PBS Office of Facilities Management and Services Programs, including a Regional Security Network. The Security Division has taken an active role on Interagency Security Committee (ISC) working groups which have been addressing significant areas such as revised standards for facility security level determinations and baseline standards for existing facilities. The agreement between GSA and FPS addressed the roles, responsibilities, and operational relationships between FPS and GSA concerning the security of GSA controlled space. Negotiation of a new MOA has been on hold, pending the recent shifting of FPS from the Immigration and Customs Enforcement bureau into the National Protection and Programs Directorate and FPS's ability to demonstrate improved delivery of the Contract Adjudication Program. The new MOA will have to take into account numerous areas, including ISC security standards, security equipment maintenance, and the impact of FPS's policy change to transition to an inspector-based workforce.

FEDERAL BUILDINGS FUND

ISSUE: *Challenges exist for long-term funding of the Federal Buildings Fund (FBF).*

PBS is one of the largest real property organizations in the world. Its building inventory consists of over 9,600 assets, mostly general purpose office space in federal buildings and leases, with almost 370 million square feet of rentable space. Approximately 51 percent of the PBS building portfolio is leased space. Real property operations are funded through the FBF, a revolving fund comprised of rent collected by PBS. These funds are used to make lease payments and operate government-owned buildings, as well as for investment in the capital program to repair and modernize facilities and to construct new buildings within the limits set annually as part of the budget process. The buildings in PBS's government-owned portfolio have an average age of 46 years and require approximately \$5 billion in reinvestment for repairs and alterations. We are concerned that long-term funding issues need to be addressed since future funding may not meet GSA's needs to ensure that buildings are properly maintained.

Long-term Funding Issues

In recent years, the funding for capital projects had been decreasing. This funding decrease was exacerbated by increasing construction costs, which led to fewer projects at the same funding level. Although the Recovery Act provided a temporary influx of funds in 2009, the long-term funding for capital projects is still dependent on the PBS's ability to generate revenues for the FBF.

To replenish the FBF and provide funds for the capital program, PBS will continue to rely on its operations. However, PBS's net revenue fell from \$974 million in FY 2005 to \$370 million in FY 2009. Likewise, PBS's primary measure for tracking the incoming Funds from Operations (FFO), which is essentially net revenue before depreciation, has also dropped. PBS's FFO peaked in FY 2005 at \$1.762 billion, and dropped to \$1.550 billion in FY 2009. In addition, net revenue has been impacted by PBS's leasing operations, which lost \$82 million in FY 2007 \$68 million in FY 2008, and \$51 million in FY 2009. Amid its falling revenues, PBS's operating costs for its government-owned buildings are increasing.

PBS's revenue and expense picture for the future is mixed. PBS rental rates for government-owned space are based on market appraisals that are set well in advance of taking affect, and leases are intended to be priced so that they are revenue neutral, incurring neither a profit nor a loss. PBS revenue from owned space should increase as new buildings and renovated buildings are put into operation. However, the increase may be limited as the current market appraisals used to establish future rental rates are affected by the current economic downturn. Additionally, PBS's leasing revenue will be affected by the reduction of its leasing fee from 8 percent to 7 percent (and from 6 to 5 percent for non-cancelable leases) that took effect in FY 2008.

Conversely, the rise in PBS's operating expenses is expected to slow. The current economic decline could help to slow the rise in operating costs, such as cleaning and maintenance, as competition in the current environment should lead to lower contract costs. Also, PBS could see its future energy consumption reduced as it uses Recovery Act funds to convert its buildings into high performance green buildings. However, until these measures are in place and operating, energy costs will likely continue to impact PBS.

The capital reinvestment needs of PBS's government-owned buildings have been growing. Without the necessary funding for reinvestment, buildings will continue to deteriorate, and as a result, lower rent prices as the building conditions are reflected in the rent appraisals, and even lower revenue. Using leasing as a long-term solution may not be feasible, as lease operations are only expected to break even, and have recently been losing money.

AGENCY ACTIONS: PBS is taking short term and long term steps to address this challenge. In the short term, PBS has requested \$291.9 million in new appropriations in its FY 2011 budget request. These funds are needed to ensure PBS's capital program stays on track in the near term.

PBS is working to improve its revenue by maximizing the use of its building inventory by consolidating agency requirements in government-owned space and backfilling existing underutilized buildings. PBS is also hoping that it can generate additional revenue through its out-leasing authorities and the disposal of unneeded buildings and assets. Finally, PBS is hoping that the timely collection of rent will also improve its revenue stream.

PBS is also focusing on minimizing its costs. PBS hopes that the implementation of green building technologies will improve building efficiencies in energy and water usage, which will lead to reduced operating costs. PBS is also hoping to reduce its overhead costs by evaluating its business processes to find improvements and efficiencies. Finally, PBS is working with customer agencies to improve their operational efficiencies and space utilization.

As part of these activities, PBS has focused a lot of effort on its leasing program. PBS completed a review of its leasing process in an effort to streamline, standardize, and simplify the process; improve responsiveness to customers; and partner more effectively with the private sector. PBS is working to (1) identify leases with negative financial results and take steps to mitigate the losses; (2) address its lease extensions and holdovers that impact its leasing workload; and (3) find opportunities for reduced lease rates in the current economic environment and take advantage of these opportunities to reduce its leasing costs.

AMERICAN RECOVERY AND REINVESTMENT ACT IMPACT

ISSUE: *GSA will continue to be challenged by the implementation of the American Recovery and Reinvestment Act of 2009.*

The Recovery Act provides the General Services Administration with \$5.55 billion for the Federal Buildings Fund. In accordance with the Recovery Act, the GSA Public Buildings Service (PBS) is using these funds to convert federal buildings into High-Performance Green Buildings, as well as to construct federal buildings, courthouses, and land ports of entry. The Recovery Act mandates that \$5 billion of the funds must be obligated by September 30, 2010, and that the remaining funds be obligated by September 30, 2011. To implement the Recovery Act, GSA is required to obligate approximately four times its normal construction budget within a 20-month period. When the Recovery Act was enacted into law, the projects that GSA undertook varied in their state of readiness; while some projects were already under construction, others were still in the early planning stages. Given the need to expedite the contracts, GSA established obligation milestones to ensure contracts were awarded within the obligation deadlines. As such, GSA's project teams have had to plan and contract for many Recovery Act projects within extremely short timeframes. Even with the addition of new employees and contract support staff, meeting these deadlines has strained the capabilities of the project teams even before the beginning of actual construction for these projects.

Current Impacts

With the passing of the deadline for the obligation of the majority of the funds, the project teams will need to move into the construction phase of the projects and focus on achieving the project objectives, which entails managing the construction project, monitoring contractor performance, and administering the contracts. However, like the planning and contracting stages, these efforts will come with their own challenges.

Project management issues will likely result from the shortened planning timeframes. Already we have identified a lack of project management plans as well as contracting issues associated with using the construction-manager-as-constructor project methodology. Other project-specific issues are likely to arise due to the shortened planning timeframes. In addition, the Recovery Act language did not provide for the funding of these contingencies as all funds were to be obligated by the Recovery Act deadlines. However, pending legislation,² if passed, will allow GSA to retain its Recovery Act funding for use on Recovery Act projects in GSA's spending plan until the funds are expended.

Monitoring contractor performance may also be a problem. With hundreds of Recovery Act projects added on top of its normal workload, GSA will need additional contractors and agency personnel to monitor contractors' performance to ensure the quality of the construction as well as to ensure that the project meets its schedule and stays within budget. In addition to the need for staff to monitor contractor performance on the projects, the energy savings measures present a potential risk. As many of the measures have not been used on a large scale basis, not all project teams will have the expertise to oversee the work and may need assistance to effectively ensure that the measures are installed correctly and perform effectively.

² See Senate Bill S.3677.

Finally, the contract administration workload is likely to remain high. As construction projects often result in continuing contracting actions, primarily modifications but also potentially terminations and claims, the Recovery Act projects are likely to result in a continued higher workload for the contracting staff for a prolonged period.

Long Term Impacts

In the long term, GSA will have to incorporate the Recovery Act measures into its facility management program and track the benefits of implementing measures to convert existing facilities to High Performance Green Buildings, especially energy savings and reduced green house gas emissions.

GSA's buildings should benefit from the new equipment and energy savings measures funded through the Recovery Act. However, GSA will need to incorporate the new equipment into its operations and maintenance program. As the features are new to many building managers and current facility operations contractors, GSA will need to take special steps, including inventorying the equipment, to identify the new equipment and determine the additional operations and maintenance requirements for the equipment. In some cases, this may lead to higher building costs to ensure the equipment is operating properly.

Finally, GSA also needs to capture the benefits and savings of taking measures to convert its buildings to High Performance Green Buildings. As reported by GAO,³ when the Recovery Act projects were started, GSA did not have a program to gather information on what measures were being implemented, how they were expected to impact the building, and whether the measures were effective. There are many different characteristics of High Performance Green Buildings, ranging from reduced consumption of water, energy, or material resources, to increased use of reuse and recycling programs, to reducing the transportation impact on the environment. GSA will need to find ways to identify the measures that are being taken, quantify the results of their implementation, and evaluate their effectiveness.

AGENCY ACTIONS: GSA has recognized the impact of the Recovery Act and is taking steps to assess, monitor, and manage it. GSA's Recovery Act focus is moving from the contract award phase of the project to the construction phase. As part of this shift, GSA will be merging the Program Management Office (PMO) for the Recovery Act implementation with the Public Buildings Service's Office of Design and Construction. PMO Recovery Act responsibilities, such as monitoring contractor reporting, will be retained by the new organization and will be performed in tandem with oversight of the project delivery.

GSA also plans to monitor the contract administration workload and procurement actions on Recovery Act contracts. GSA has recognized that it will need to learn how to manage the new technologies and will be incorporating these efforts into its overall initiatives to "Green" federal buildings.

With regard to evaluating the effectiveness of the Recovery Act projects' High Performance Green Building measures, the PMO is currently working on a tool to collect information on energy and water conservation performance. The tool will collect the project level data so that it can be aggregated and generate customized reports upon request. In the future, the tool may be integrated with other internal project management systems.

³ Federal Agency Management: GSA's Recovery Act Program is on Track, but Opportunities Exist to Improve Transparency, Performance Criteria, and Risk Management (GAO-10-630)



November 10, 2010

MEMORANDUM FOR BRIAN D. MILLER
INSPECTOR GENERAL (J)

FROM:

MARTHA JOHNSON
ADMINISTRATOR (A)

A handwritten signature in black ink, reading "Martha Johnson", is written over the printed name and title of the Administrator.

SUBJECT: Inspector General's Assessment of the U.S. General Services Administration's Major Challenges

Thank you for providing me with the opportunity to review your assessment of the major challenges currently facing the U.S. General Services Administration (GSA) and our progress in addressing them.

GSA acknowledges these challenges and is implementing a broad range of measures to address them, including issuance of the Fiscal Year (FY) 2010 - 2015 Strategic Sustainability Performance Plan and establishment of the Sustainability Steering Committee; making additional efforts to improve the Multiple Award Schedule (MAS) program pricing and management and transition of government agencies from the FTS 2001 contracts to Networx contracts; continuing to implement an integrated financial management system; planning for Cloud Computing services and working to achieve the goals of the FY 2010 - 2012 IT Strategic Business Plan; and ongoing management of the Recovery Act work.

Please find attached our comments that provide information and clarification pertaining to the Greening Initiative, Acquisition Programs, and the Recovery Act.

We look forward to continuing to work with the OIG to minimize, if not eliminate, waste, fraud and abuse and promote greater government effectiveness and efficiency.

Attachment

AGENCY MANAGEMENT COMMENTS ON THE INSPECTOR GENERAL'S ASSESSMENT OF GSA'S MAJOR MANAGEMENT CHALLENGES



GSA's "Greening Initiative" – Sustainable Environmental Stewardship

Issue: Challenges exist in achieving GSA's sustainability and environmental goals

The Public Buildings Service (PBS) suggests that in addition to social and economic conditions in making site selections, there are many other factors related to Greening which are considered. PBS suggests that the Office of Inspector General (OIG) also include environmental conditions as a factor when making site selections.

Acquisition Programs

Issue: Multiple Award Schedules program

In this section, the OIG states that the authorized users of the Multiple Award Schedules (MAS) program "simply order supplies or services from the schedules (or catalogs) at the pre-negotiated prices and pay the contractors directly for their purchases."

The Federal Acquisition Regulation (FAR) states, in Subpart 8.4, that price reductions from awarded prices on the GSA Schedules may be sought at any time (at any dollar threshold) and regardless of whether products or services are being purchased. That is, the authorized users enjoy the ease of using a pre-awarded contract and not going through the time consuming effort of checking on past performance, terms and conditions, and compliance, but can still negotiate best value pricing as appropriate.

Further, the pending implementation of Section 863 of the 2009 National Defense Authorization Act will require any order in excess of the Simplified Acquisition Threshold to be competed in a manner which either results in three quotes/proposals or would reasonably anticipate the receipt of at least three quotes/proposals.

Pricing

In the MAS "Pricing" section, the OIG expresses concern "that the emphasis on related MAS program fundamentals – including pricing objectives and other pricing tools – has diminished."

In response, the Federal Acquisition Service (FAS) has a comprehensive and active strategy for assisting the GSA Contracting Specialists and Contracting Officers in negotiating fair and reasonable prices for MAS contracts. Additionally, FAS management has briefed the OIG on these activities. Collectively, these initiatives are evidence of the high level of attention and resources FAS is placing on the fundamental importance of pricing at the Schedule contract level.

The on-going activities include:

- A Procurement Information Notice (PIN) on pricing guidance that is due for release from the FAS Office of Acquisition Management. The PIN is a direct result of FAS concurrence with recommendations from the OIG and GAO and is part of several time phased action plans from ongoing audit resolutions.
- FAS Enterprise Acquisition Solution (EAS), specifically the functionality associated with the Formatted Pricing Tool, will initially include a price comparison tool for products, and eventually is anticipated to include the ability to capture and display task order pricing for Schedule purchases.
- Quarterly meeting of the MAS Governance Council and the MAS Summit where leadership reviews and directs opportunities for improvement in the program.
- The Rapid Action Modification II (RAM II) to capture and manage electronically the Basis of Award and price-discount relationship for each contract will result in much more current pricing disclosures, and when fully implemented, disclosures will be required on an annual basis.
- Options Project Ensuring iNtegrity (OPEN) is a Lean Six Sigma project to standardize and streamline the review and award of MAS contract Options which will also result in enhanced contract administration.
- A comprehensive training program for authorized users as well as awarding contracting officers to maximize the effective use of the Schedules program with particular emphasis on competition at the task order level, as specified by the Office of Management and Budget (OMB). There will be specific training modules on negotiating and awarding Schedule contracts which will include an emphasis on price negotiation as well as the use of field pricing assistance; and
- FAS-OIG Working Group which serves as a regular forum for FAS and OIG management to meet and discuss tactical and strategic issues.

The OIG also expresses concern regarding contractors with only federal sales, and also with those contractors who have created a “corporate structure to organizationally segregate their commercial business from their government business.” The OIG recently informed the MAS Program Office management of this concern and both parties share the same concerns. The pricing guidance noted previously will advise Contracting Specialists and Contracting Officers how to address such concerns. As an example, the circumstances of a particular offer may warrant a request for commercial sales information to support a fair and reasonable price determination where the contractor has attempted to build a corporate “firewall” otherwise protecting such information from disclosure requirements.

Other Considerations Impacting MAS

In this section, concerns in two areas regarding the rewrite of the General Services Administration Manual (GSAM) are noted by the OIG:

1. “Proposed changes will result in a major weakening of the controls over the MAS program, make the MAS program less useful to user agencies, and waste significant amounts of taxpayer dollars,” and
2. “Issuance of the Final Rule in its current form, with significant changes that have not been published or otherwise publicly communicated, would not be consistent with the Administration’s emphasis on transparency in government operations. We believe the number and extent of changes from the originally published proposed rule warrant a new round of public comment.”

Based upon public comments and ongoing Federal Supply Schedule (FSS) program changes (previously noted), the final rule contains a number of changes aimed at updating policy to reflect evolving FSS program needs, fostering greater consistency across the FSS program, and strengthening its ability to achieve better value for the government and the taxpayer.

Republishing the General Services Administration Regulation (GSAR) Part 538 rewrite as a proposed rule would be harmful to GSA's ability to meet the Administration's priorities through the FSS program, specifically in fostering transparency, competition, and acquisition savings in achieving better value for the government and the taxpayer.

Contract Workload Management

The issue of workload management is addressed by several of the previously noted FAS initiatives in the area of process improvement and systems enhancements. The EAS will support end-to-end electronic contracting, which will enable FAS to transfer contract files from region to region to maintain a balanced workload across the Schedules program. Process improvements will eliminate unnecessary steps in the acquisition process, build consistency where appropriate, and provide contracting personnel with the tools and resources necessary to negotiate and award MAS contracts in an effective and efficient manner.

Network Management Challenge

The Network contracts have an acquisition ceiling of \$68.2 billion; however, the ultimate acquisition value should be considerably below this ceiling.

GSA is taking action across a broad spectrum of stakeholders including:

- Working closely with OMB;
- Keeping Congress fully informed of transition progress;
- Communicating best practices to all agencies;
- Working directly to support agencies who have requested assistance, and
- Resolving any issues with all telecommunications contractors.

In addition, GSA is developing follow-on sole source contracts to support a very small number of agencies that are expected to need short-term support beyond the May/June 2011 expiration dates. While the Network transition is a large effort for all agencies, once fully implemented, Network will significantly reduce the current telecommunications costs as well as greatly improve its core infrastructure.

American Recovery and Reinvestment Act Impact

Issue: GSA will continue to be challenged by the implementation of the American Recovery and Reinvestment Act of 2009.

GSA is assessing projects based on their scope of work and the need to have full project management plans for each. Where projects are large and work complex, GSA is using full project management plans. Where projects are smaller or less complex, GSA will ensure that an appropriate project management plan is developed. This work is currently underway and GSA anticipates identifying the projects and the associated project plans by mid-November 2010.

IMPROPER PAYMENTS INFORMATION ACT

IMPROPER PAYMENT REPORTING DETAILS

As a result of the inherent lag in reviewing and evaluating improper payments, GSA received approval from OMB to report prior-year Improper Payments Information Act (IPIA) program results for current year reporting in an effort to obtain more accurate estimates of improper payments and recovery effectiveness. In FY 2010, GSA performed a simplified risk assessment which evaluates improper payments from the GSA payment recapture audit (previously called recovery audit) and the Continuous Monitoring program surrounding the disbursement process. Based on this assessment, we consider any significant legislative, programmatic, funding, and/or other program changes to conclude that none of GSA programs are risk-susceptible programs under the IPIA guidelines. OMB defines a risk-susceptible program as having improper payments greater than \$10 million and 2.5 percent of program disbursements.

PAYMENT RECAPTURE (RECOVERY) AUDIT PROGRAM

GSA's Payment Recapture Audit Program reviewed \$16 billion of the \$17.9 billion in disbursements subject to review for FY 2010 reporting. Payments subject to other reviews which include Construction, Fleet, and the Transportation programs were excluded from the Payment Recapture Audit Program. This program has identified over \$249 million of overpayments since FY 2005 and successfully recovered over \$110 million. All amounts recovered are returned to the original program, excluding a contingency fee paid to the payment recapture audit contractor upon successful collection of contractor identified claims. Current and prior-year results of the Payment Recapture Audit program are presented in the table below.

Payment Recapture Auditing Results Current Year (FY 2010) and Prior Years (FY 2005 through FY 2009)								
Agency Component	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	Amounts Identified for Recovery PYs	Amounts Recovered PYs	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)
GSA-Wide	\$17.9 B	\$16 B	\$29.5 M	\$16.2 M (55 Percent)	\$220.4 M	\$94.3 M (43 Percent)	\$249.9M	\$110.5 M (44 Percent)

The Payment Recapture Audit Program works with managers to improve the efficiency and effectiveness of the recovery audit process from payment review to claim collection. Business process changes have been proposed and new controls identified to prevent further occurrences of known disbursement risks. One change involves strengthening the post-payment review process to support risk-based reviews of key disbursement risks and provide managers with continuous monitoring over the disbursement process.

Obtaining the necessary supporting documentation to assess the validity of payments remains a challenge due to documentation not existing in electronic form and difficulties in accessing the supporting documentation in the many business and feeder systems that exist across GSA. Better system integration and wide-spread adoption of electronic imaging of key supporting documentation would help address this problem, reduce the cost of these reviews, and improve the accuracy and timelines of the post-payment and pre-payment review processes at GSA.

FY 2010 Payment Recapture Audit Program Results (in Dollars)	
Recovery Audit Program Costs	\$2,054,805
Agency Salaries & Expenses	\$251,973
Total Contracted Expenses	\$1,802,832
Paid	\$1,484,859
Due	\$317,973
Total Payment Errors Identified	\$29,522,988
Discovered by Contractor	\$16,709,596
Amount Unrecoverable	\$0
Amount Recovered	\$6,391,191
Amount Outstanding	\$10,318,405
Discovered by GSA	\$12,813,402
Amount Unrecoverable	\$29,528
Amount Recovered	\$9,777,429
Amount Outstanding	\$3,006,445

Over the upcoming fiscal year, GSA plans to expand the scope of the Payment Recapture Audit Program to include telecommunication payments (local and long distance), Fleet Vehicles and Recovery Act payments. Results of payment recapture audits will continue to be monitored monthly, root causes of improper payments reviewed, and controls reviewed annually and tested as part of the A-123 assessment of internal controls over financial reporting. GSA continues to view the Payment Recapture Audit Program as a key element of its overall program of effective internal controls over the payment process.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Table 1. Summary of Financial Statement Audit

Audit Opinion:	Unqualified				
Restatement:	No				
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
Financial Management Systems, Budgetary Controls, and Financial Reporting	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

Table 2. Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance:		Unqualified				
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Management Systems, Budgetary Controls, and Financial Reporting	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance:		Unqualified				
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Management Systems, Budgetary Controls, and Financial Reporting	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance:		Systems substantially conform to financial management system requirements				
NON-CONFORMANCES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Management Systems, Budgetary Controls, and Financial Reporting	0	0	0	0	0	0
Total Non-Conformances	0	0	0	0	0	0
Compliance with Federal Financial Management Improvement Act (FFMIA)						
Overall Substantial Compliance	GSA			AUDITOR		
	Yes			Yes		
1. System Requirements	Yes					
2. Accounting Standards	Yes					
3. USSGL at Transaction Level	Yes					

OTHER GSA STATUTORILY REQUIRED REPORTS

DEBT MANAGEMENT

GSA reported \$128.5 million of outstanding debt from non-federal sources; of that amount, \$36.9 million, or 28.7 percent, was delinquent at the end of FY 2010. Non-federal receivables consist of debts owed on third-party claims, travel advances, proceeds from the sale of real property, and other miscellaneous receivables.

To comply with the Debt Collection Improvement Act of 1996, GSA transmits delinquent claims each month to the Department of the Treasury (Treasury), Financial Management Service for cross-servicing collection. During FY 2010, the Office of the Chief Financial Officer (OCFO) referred over \$4.2 million of delinquent non-federal claims to the Treasury for cross-servicing collection activities. Collections on non-federal claims during this period exceeded \$385.8 million and administrative offsets resulted in additional

collections of \$9.8 million. GSA also collected 346 Pre-Authorized Debits totaling \$62,159 of non-federal claims in FY 2010.

The OCFO has continued to implement and initiate actions to improve debt collection efforts and reduce the amount of debt written off as uncollectible for GSA.

GSA actively pursues delinquent non-federal claims using installment agreements, salary offset, administrative wage garnishment, and any other statutory requirement or authority that is applicable. GSA continues to place a high priority on resolving delinquent accounts receivable and claims.

CASH AND PAYMENTS MANAGEMENT

The Prompt Payment Act, along with the Debt Collection Improvement Act of 1996, requires the timely payment of commercial obligations for supplies and services using electronic funds transfer. In FY 2010, GSA paid interest of \$1.6 million on

disbursements of \$17.9 billion, or \$89.12 in interest per million disbursed. GSA incurred interest penalties primarily on late payment of taxes due on GSA leases. The statistics for the current and preceding two fiscal years are as follows:

	FY 2008	FY 2009	FY 2010
Total Number of Invoices Paid	1,223,824	1,450,011	1,594,712
Total Dollars Disbursed	\$15.2 Billion	\$16.7 Billion	\$17.9 Billion
Total Dollars of Interest Penalties	\$730,643	\$1,944,630	\$1,604,034
Interest Paid per Million Disbursed	\$47.93	\$116.53	\$89.12
Percentage of Invoices Paid On Time	98.60%	98.30%	98.50%
Percentage of Invoices Paid Late	1.36%	1.70%	1.50%
Percentage of Invoices Paid Electronically	96.80%	98.70%	98.50%

SCHEDULE OF SPENDING

(UNAUDITED)

The Schedule of Spending presented below is not a required report, but was developed in an attempt to present GSA's spending in a reader friendly format. To achieve this goal, standard accounting terms were modified to improve understanding of common federal accounting terms for the general public. For example the line item labeled Available to Spend matches the Total Budgetary Resources line in GSA's Combining Statements of Budgetary Resources (CSBR). The Committed to Spend section equals Obligations Incurred, Amounts Remaining after Agreements equals the Unobligated Balances, and the Payments Made section equals Gross Outlays all from the CSBR.

For the Fiscal Years Ended September 30, 2010 and 2009

(Dollars in Millions)

	2010				2009			
	Federal Buildings Fund	Acquisition Services Fund	Other Funds	GSA Combined Totals	Federal Buildings Fund	Acquisition Services Fund	Other Funds	GSA Combined Totals
Available to Spend	20,822	12,641	1,074	34,537	20,925	12,038	1,280	34,243
Committed to Spend								
Employee Salaries, Benefits and Travel	818	441	307	1,566	730	408	310	1,448
Building Leases	5,280	52	35	5,367	4,916	51	34	5,001
Utilities, Communications	463	1,176	29	1,668	466	1,184	33	1,683
Other Services	2,861	5,217	374	8,452	2,859	4,834	336	8,029
Supplies and Materials	34	3,131	47	3,212	39	3,392	303	3,734
Equipment	286	813	44	1,143	46	815	27	888
Land and Structures	4,966	8	0	4,974	2,395	4	0	2,399
Other	178	53	3	234	184	52	4	240
Total Agreements	14,886	10,891	839	26,616	11,635	10,740	1,047	23,422
Amounts Remaining after Commitments	5,936	1,750	235	7,921	9,290	1,298	233	10,821

	2010				2009			
	Federal Buildings Fund	Acquisition Services Fund	Other Funds	GSA Combined Totals	Federal Buildings Fund	Acquisition Services Fund	Other Funds	GSA Combined Totals
Payments Made								
Employee Salaries, Benefits and Travel	804	437	307	1,548	726	404	307	1,437
Space Rental	5,212	51	33	5,296	4,822	51	35	4,908
Communications, Utilities	449	1,188	25	1,662	446	1,139	32	1,617
Other Services	2,796	4,496	333	7,625	3,138	4,404	315	7,857
Supplies and Materials	36	3,071	95	3,202	39	3,145	253	3,437
Equipment	86	753	39	878	43	812	30	885
Land and Structures	1,675	2	0	1,677	776	3	0	779
Other	174	51	5	230	193	50	5	248
Total Payments	11,232	10,049	837	22,118	10,183	10,008	977	21,168

DESCRIPTION OF INDEPENDENT AND CENTRAL OFFICES



- **Office of Citizen Services and Innovative Technologies (OCSIT):** is the nation's focal point for data, information and services offered by the federal government to citizens. OCSIT plays a leadership role in identifying and applying new technologies to effective government operations and excellence in customer service in the government. OCSIT creates a more citizen-centric, results-oriented federal government. OCSIT helps citizens to interact with the government by creating a single electronic front door to the services and information they require in the medium preferred: the Web, e-mail, telephone, fax or print. OCSIT also provides in-house communications support to the rest of GSA, and is a liaison with the media.
- **Office of Inspector General (OIG):** The OIG conducts an independent nationwide audit and investigative program of GSA internal operations, programs and external contractors. The OIG promotes economy, efficiency and effectiveness; and prevents and detects fraud, waste and mismanagement in GSA programs and operations.
- **Civilian Board of Contract Appeals (CBCA):** CBCA serves as an independent and objective tribunal in contract disputes between government contractors and GSA, and contractors and other executive agencies. CBCA provides alternative dispute resolution services to all federal agencies and contractors. The board also hears claims involving transportation rate determinations, federal employee travel, relocation and expense claims, and a small number of other types of claims.
- **Office of the Chief Financial Officer (OCFO):** The OCFO provides financial management services for GSA and over 50 internal and external customers. The OCFO manages strategic planning, budgeting and the performance management cycle within GSA; manages core accounting system; and prepares financial statements and reports.
- **Office of the Chief Information Officer (OCIO):** The OCIO provides enterprise IT services and solutions by leveraging IT resources to support GSA business needs.
- **Office of the Chief People Officer (OCPO):** The OCPO develops and delivers programs, policies and services that promote GSA strategic management of human capital.
- **Office of Communications and Marketing (OCM):** OCM focuses on conveying information about GSA to federal employees and external audiences, including the media, agency customers, stakeholders, and the American public.
- **Office of Civil Rights (OCR):** OCR ensures equal employment opportunity (EEO) for all GSA employees and applicants for employment on the basis of sex, race, color, national origin, religion, disability and age, and protects employees from retaliation for protected EEO activity. OCR protects recipients of GSA's Federal Financial Assistance program and participants in federally conducted programs from discrimination.

- **Congressional and Intergovernmental Affairs (OCIA):** OCIA maintains Agency liaison with Congress; prepares and coordinates GSA annual legislative program; communicates GSA legislative program to OMB, Congress, and other interested parties; and works closely with OMB in the coordination and clearance of all proposed legislation impacting GSA.
- **Office of Emergency Response and Recovery (OERR):** OERR is responsible for ensuring that GSA maintains a constant state of readiness to provide emergency acquisition support and emergency real property to federal agencies in the event of a disaster or catastrophic event. OERR coordinates GSA national continuity responsibilities by: developing policies, plans and procedures; developing and implementing GSA disaster readiness programs; and providing emergency acquisition support and serving as the on-the-ground liaison between GSA field organizations and federal emergency response efforts during national disasters. OERR coordinates emergency management services throughout GSA, and develops emergency preparedness procedures, shelter-in-place guidelines and training to assist employees in the event of an emergency.
- **Office of General Counsel (OGC):** The OGC provides legal advice and representation to GSA services and staff offices to enhance their ability to help federal agencies. The OGC carries out all legal activities of GSA, ensures full and proper execution of GSA's statutory responsibilities, and provides legal counsel to GSA officials.
- **Office of Governmentwide Policy (OGP):** OGP improves government-wide management. Its responsibilities span personal and real property, travel and transportation, IT, regulatory information, and use of federal advisory committees. OGP accomplishes its mission through collaboration with federal agencies and other stakeholders.
- **Office of Performance Improvement (OPI):** OPI studies, designs and oversees action plans to meet GSA strategic goal of continuous performance improvement. OPI provides advice on major policies and procedures related to GSA performance functions to the Administrator and Deputy Administrator.
- **Office of Small Business Utilization (OSBU):** OSBU advocates for small, minority, veteran, historically underutilized business zone (HUBZone) and women business owners. OSBU promotes increased access to GSA nationwide procurement opportunities by nurturing entrepreneurial opportunities, outreach and training.
- **Office of the Chief Acquisition Officer (OCAO):** The OCAO strengthens GSA acquisition activities and provides federal agency customers with acquisition services in support of their missions.

ACRONYMS AND ABBREVIATIONS

AFR	Agency Financial Report	GAAP	Generally Accepted Accounting Principles
APR	Annual Performance Report		
ASF	Acquisition Services Fund	GHG	Greenhouse Gas
BAAR	Billing and Accounts Receivable	GSA	General Services Administration
BIRT	Business Intelligence Report Tool	GSAM	General Services Administration Acquisition Manual
CDP	Carbon Disclosure Project	IPIA	Improper Payments Information Act
CGAC	Common Government-wide Accounting Classification	IT	Information Technology
CIP	Construction in Process	ITS	Integrated Technology Services
CSBR	Combining Statements of Budgetary Resources	LEED	Leadership in Energy and Environmental Design
CSRS	Civil Service Retirement System	MAS	Multiple Award Schedules
FAIM	FAS Accounting Interface Module	MFC	Most Favored Customer
FAR	Federal Acquisition Regulation	NEAR	National Electronic Accounting and Reporting
FAS	Federal Acquisition Service	OMB	Office of Management and Budget
FASAB	Federal Accounting Standards Advisory Board	PIN	Procurement Information Notice
FBF	Federal Buildings Fund	PBS	Public Buildings Service
FCSF	Federal Citizen Services Fund	PMO	Program Management Office
FERS	Federal Employees Retirement System	PMR	Procurement Management Review
FFMIA	Federal Financial Management Improvement Act	R&A	Repairs and Alterations
FFO	Funds from Operations	RWA	Reimbursable Work Authorization
FISMA	Federal Information Security Management Act	SBR	Statement of Budgetary Resources
FMFIA	Federal Managers' Financial Integrity Act of 1982	SFFAS	Statement of Federal Financial Accounting Standards
FPS	Federal Protective Service	TSP	Thrift Savings Plan
FTE	Full-time Equivalent	USSGL	U.S. Standard General Ledger
FY	Fiscal Year	WCF	Working Capital Fund



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